

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|------------------------------------|---|-------------------|
| Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name: <u>City of Birmingham, Michigan</u> | County Oakland |
| Audit Date June 30, 2005 | Opinion Date September 30, 2005 | Date Accountant Report Submitted To State: December 14, 2005 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | |
|--|--------------------|-------------|--------------|
| Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC | | | |
| Street Address 27400 Northwestern Highway | City Southfield | State MI | ZIP 48034 |
| Accountant Signature <i>Plante & Moran, PLLC</i> | | | |

**Comprehensive Annual
Financial Report of the
City of Birmingham, Michigan
as prepared by the
Department of Finance**

Fiscal Year Ended June 30, 2005

City Commission

Rackeline Hoff, Mayor
Scott Moore, Mayor Pro Tem
Donald F. Carney Jr., Commissioner
Thomas McDaniel, Commissioner
Dianne M. McKeon, Commissioner
Julie Plotnik, Commissioner
Gordon Thorsby, Commissioner

City Manager

Thomas M. Markus

Director of Finance

B. Sharon Ostin

City of Birmingham, Michigan

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Introductory Section

November 21, 2005

To the Honorable Mayor and City Commission
City of Birmingham
Birmingham, Michigan 48012

With this letter, we transmit the City of Birmingham, Michigan's (the "City") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. This report has been prepared pursuant to, and in compliance with state statutes which require the City to publish within six months of the close of each fiscal year a complete set of financial statements in compliance with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America.

The financial statements have been prepared by the City's finance department for the purpose of disclosing the City's financial condition to its residents, elected officials, and other interested parties. Management assumes full responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

The City's financial statements have been audited by Plante & Moran, PLLC. The purpose of an independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Birmingham's financial statements for the year ended June 30, 2005 are fairly presented in conformity with GAAP. Plante & Moran's report is presented as the first component of the financial section of this report.

This letter is designed to introduce the financial report and provide information that would be useful in assessing the City's financial condition (particularly information about future resources and obligations). In addition, the financial statements include a narrative introduction, overview, and analysis in the form of a management's discussion and analysis (MD &A), which should be read in conjunction with this letter.

Profile

The City of Birmingham was incorporated in 1933 as a home-rule city. It is located in the southeastern portion of Oakland County approximately 20 miles north of downtown Detroit. Covering only 4.73 square miles, the community is able to maintain the feel of a small town while offering the recreational and cultural advantages of a prosperous urban area. The City operates under the commission-manager form of government. The seven commission members, one of whom serves as mayor, are elected for four-year overlapping terms on a non-partisan basis. The city commission is responsible, among other things, for passing ordinances, adopting the budget, and appointing advisory board and commission members. The city manager is responsible for carrying out the policies and ordinances of the city commission and for overseeing the day-to-day operations of the City. The city commission appoints the city manager and city clerk, who reports, as do all other department heads, to the city manager.

Throughout its history, Birmingham has enjoyed a high level of citizen involvement, which has contributed to the high quality of life in the community. Residents are elected or appointed to serve on a variety of commissions, committees, councils, and boards. Residents and officials alike volunteer their time and talent to support various projects to benefit the community.

Located in the heart of Oakland County, one of the wealthiest counties (by per capita income) in the country, Birmingham is an affluent city, with a median household income of just over \$100,000 (in 2000) and poverty just under 3 percent. Birmingham residents also are well-educated, with 30 percent of the population 25 or older holding a graduate degree, and 38 percent holding a bachelor's degree. Fifty-one percent of the jobs held in Birmingham (in 2000) are in the service sector, followed by finance/insurance/real estate (19 percent) and retail trade (17 percent).

Birmingham's thriving pedestrian-friendly downtown includes restaurants, movie theaters, art and antique galleries, and retailers. The City is a favorite destination for visitors throughout the Metro area and offers one of the Midwest's premiere shopping districts. The City currently has in excess of 300 retailers and over 500 service enterprises. Named one of the country's "Top 20 Most Walkable Communities," the City provides residents with a quality lifestyle including beautiful residential neighborhoods, excellent schools, and all the social and cultural opportunities that come with a vibrant downtown. The Birmingham Principal Shopping District, established in 1993, provides leadership in marketing, advertising, and promotion of the downtown.

The City provides a wide range of City services, including police and fire protection; the construction and maintenance of roads and other infrastructure; recreational activities and cultural events; community planning, zoning, and code enforcement; refuse collection, and water-receiving and sewage disposal services. Birmingham is also within commuting distance of the major employment areas of the greater Detroit metropolitan area. Located within the City are the Rouge River, Quarton Lake, and rolling landscape, which attract builders and homeowners.

The Baldwin Public Library and the Principal Shopping District are also included in the City's reporting entity because of the significance of their operational or financial relationship with the City. These two component units are reported within the component unit's column in the combined financial statements. Additional information pertaining to these two component units can be found in the notes to the financial statements (see Note I).

Factors Affecting Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the environment in which the City operates.

Local Economy - The largest single revenue source is property taxes. Historically this revenue source has been stable and is expected to remain so into the foreseeable future. The City also continues to have a strong, diversified tax base as the 10 largest taxpayers represent approximately 8.36 percent of total taxable valuation. A total of 79.5 percent of the City's taxable value is residential. The remaining 20.5 percent is nonresidential, composed of 16.5 percent commercial, .7 percent industrial, and 3.3 percent personal property. The City is approximately 98 percent developed. As a result of significant reinvestment in the City's residential and commercial districts, the City has experienced a 6.7 percent annual growth rate in the property tax base since fiscal 2000.

The region, which includes the City of Birmingham and some of the nation's most affluent suburbs, has a labor force of approximately 648,950. The June 2005 unemployment rate of 3.9 percent for the City is well below the state and national unemployment rates of 6.8 percent and 5.0 percent, respectively, for the same period. Suburban Oakland County, where Birmingham is located, is Michigan's chief economic engine and is one of the few areas in the state that grew faster than the nation. It is anticipated that this area will add about 36,400 jobs over the three-year period from 2005 through 2007. This represents about one-third of the total jobs expected to be gained statewide. The City continues to attract businesses of national and international importance and maintains a 95 percent retail occupancy rate in its Principal Shopping District. This is primarily attributable to independent retailers continuing to open new businesses such as high-end fashion, galleries, and restaurants within the City.

For the Michigan economy, Big Three market share is important. Sharp declines in market share affect the Michigan economy adversely compared to other states. The auto industry has acted to stem their market share decline. Unless the decline in market share is stopped, Michigan's economy and revenue growth will decline and will be lower than currently expected. As a result, the State would continue to rely on and retain a higher portion of the sales tax it collects to balance its own budget. In the past, this has resulted in a decrease in state-shared revenues from sales tax collections that the State distributes and shares with local units of government. Approximately 7 percent of the City's total General Fund revenues come from this source.

The City has maintained a strong financial position as a result of significant gains in property tax receipts, which are generated by the continued strength of the local economy. The strong financial position is also attributable to continued good financial performance, maintenance of fund balance levels, and continued prudent management of the City's operations.

Accounting and Budgetary Control

The City's comprehensive internal-controls framework has been designed to protect the City's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of financial statements in conformity with GAAP. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the financial statements will be free from material misstatement.

The annual budget serves as the primary financial management tool for the City. From November to February, the city manager and department heads develop and review departmental and activity budgets. At the "Long-Range Planning Session" in January, the city commission gives feedback and communicates its priorities and the direction in which it wishes to proceed. At this meeting, a "Five-Year Financial Forecast" is also presented and serves as the framework from which the budget is developed. The city manager, also in a public forum on or before the first Monday in May, presents the proposed budget in line-item detail to the city commission for review and approval.

The City of Birmingham's budget is a plan that represents the city commission's commitment to provide cost-effective, efficient, and quality services to its residents. The annual budget is adopted in accordance with legal requirements governed by Chapter 7 of Birmingham's City Charter and the Uniform Budgeting Act, State of Michigan, P.A. 621 of 1978. The City adopts its budget by budgetary center, which is the level of classification detail at which, by law, expenditures cannot exceed appropriations. Budget transfers between budgetary centers or from fund balance are approved by the city commission periodically.

Annual budgets are legally adopted for the General and Special Revenue Funds as required by the State's Uniform Budgeting Act. In addition, although not required by law, the City's Debt Service and Capital Projects Funds are also under formal budgetary control for financial management and project control purposes. Unexpended appropriations lapse at year end, while open purchase orders and contract encumbrances are immediately reappropriated to the subsequent fiscal year.

Long-term Financial Planning - Because the City is at a mature stage in its life cycle, it has significant infrastructure needs that have not been present historically. Several years ago, the City determined that meeting these infrastructure needs would be the most significant financial challenge over the next several years. In fiscal year 1999-2000, a 10-year sewer improvement program with an estimated cost of \$32 million was begun to abate basement flooding, construct relief sewers, and repair or replace existing sewers in critical structural condition. Of the \$32 million, \$11.8 million has been earmarked for joint sewer relief projects with other communities - the North Arm Project for the Twelve Towns Drain, the George W. Kuhn Drain Project, and the Acacia Park Relief Drain.

The City of Birmingham is in the ninth year of a 12-year program which began in fiscal year 1997-98 for water main construction and restoration. This program is financed by a voter-approved property tax levy. In addition, improvements totaling \$3 million have been incurred and were financed with revenue bonds issued in 1993.

In November 2001, City voters authorized the City of Birmingham to issue general obligation unlimited tax bonds in an amount not to exceed \$25 million. The bonds may be sold in one or more issues. The proceeds from the bond sales are being used to implement the Recreation Master Plan. The Recreation Master Plan outlines the City's long-range goals for the acquisition and/or enhancement of parkland and recreational facilities. The first bond issue in the amount of \$15.7 million was sold in December 2002 and a portion of the proceeds was used to purchase the Barnum Facility and to partially fund the dredging of Quarton Lake and the rehabilitation of the dam. Quarton Lake and Booth Park improvements are also being funded by the bond proceeds. The Barnum Property Committee is currently studying the best use of the Barnum property including public/private opportunities while examining details of the building, park space, and land uses for the entire site.

Cash Management Policies and Practices - Temporarily idle cash from the City's various funds is invested through management of a common pooled cash and investment account. Investment maturities are timed to meet the City's general liquidity needs. Investment instruments generally consisted of U.S. Treasury bills and notes, U.S. Treasury stripped coupons, certificates of deposit, and state-approved pooled investment funds. Yields on investments ranged from .920 percent to 3.853 percent during 2004-2005. Total interest income generated amounted to \$1,088,477 (excluding Pension Trust Fund earnings and earnings on funds not directly managed by the City).

Risk Management - The City is a member of the Michigan Municipal League Liability and Property Pool, which is a self-insurance program for general and auto liability, auto physical damage, and property loss claims. The City accounts for its insurance and self-insurance program in an Internal Service Fund and charges out to other funds their respective share of insurance costs. Additional information on the City of Birmingham's risk-management activity can be found in Note 10 of the notes to the financial statements.

Pension and Other Postemployment Benefits - The City of Birmingham Employees' Retirement System is a single-employer defined benefit pension plan, which covers all full-time employees of the City. Required contributions are determined as a part of an annual actuarial valuation. As of June 30, 2004, the ratio of present assets to actuarial accrued liabilities was 120.9 percent. The City of Birmingham also provides postretirement health care benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 163 retired employees and beneficiaries receiving these benefits, which are advance-funded by employer contributions expressed as a percentage of annual covered payroll at actuarially determined rates. Additional information pertaining to the City's pension and postemployment benefits can be found in Notes 11 and 12 of the notes to the financial statements.

Awards and Acknowledgements

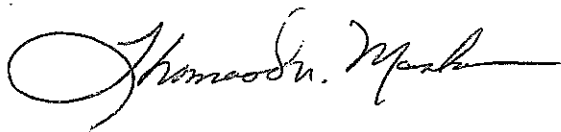
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Birmingham for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This was the fifteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A certificate of achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City has also received the GFOA's Award for Distinguished Budget Presentation for its annual budget for the fiscal year beginning July 1, 2005. This was the sixteenth consecutive year that the City has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report was made possible by the dedicated service of the entire staff of the Finance Department. Each of these individuals has our sincere appreciation for the contributions made in the preparation of this report, as well as all additional individuals who assisted in this effort. Appreciation is also expressed to the city commission for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,



Thomas M. Markus
City Manager



B. Sharon Ostin
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Birmingham,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

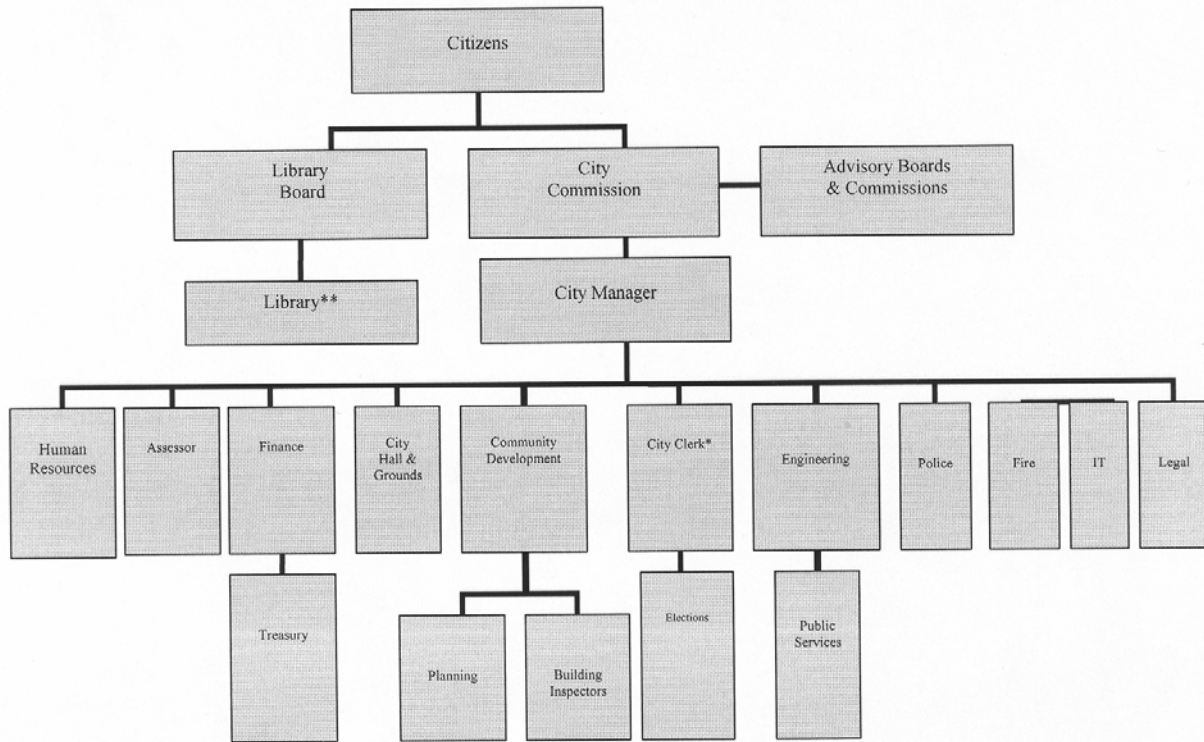
President

Jeffrey R. Enen

Executive Director

Birmingham

2004-2005 Organization Chart



* Appointed by the City Commission; reports to the City Manager.

* * The City shall provide tax levy of not less than $\frac{1}{2}$ mill and not more than $1 \frac{3}{4}$ mills.

Financial Section



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Independent Auditor's Report

To the Honorable Mayor
and City Commission
City of Birmingham, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Birmingham, Michigan (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Birmingham, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Birmingham, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



A worldwide association of independent accounting firms

To the Honorable Mayor
and City Commission
City of Birmingham, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis, pension systems schedule of funding progress, and the major fund budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The nonmajor budgetary comparison schedules and other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and pension systems schedule of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

September 30, 2005

Management's Discussion and Analysis

City of Birmingham, Michigan

Management's Discussion and Analysis

The City of Birmingham's management discussion and analysis (MD&A) is designed to provide an objective and easy-to-read analysis of the City's financial activities based on current information and facts. The MD&A is intended to serve as an introduction to the City's basic financial statements. Specifically, this information is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues.

The information contained within this MD&A is only a component of the entire financial statements. Readers are encouraged to read it in conjunction with the transmittal letter, which can be found on pages i-vi of this report and the City's financial statements, which follow this section.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- The City's total revenues were \$47.3 million, while expenditures totaled \$38.6 million.
 - Governmental activities generated \$30.6 million in revenue and \$25.4 million in expenditures.
 - Business-type activities generated \$16.7 million in revenue and \$13.2 million in expenses.
- Total net assets of the City exceeded its liabilities by \$120 million this year.
 - Total net assets related to the City's governmental activities increased by approximately \$5.2 million, with \$1.4 million of that amount invested in capital assets and \$2.9 million restricted primarily for street improvements and construction code activities.
 - Net assets of our business-type activities increased overall by \$3.4 million. Of this amount, \$4.7 million was invested in capital assets with a reduction in unrestricted assets totaling \$1.3 million.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$6 million, or 24.7 percent of total General Fund expenditures and transfers out.
- In November 2004, the City sold \$9.9 million in general obligation refunding bonds to refund the eligible portion of the City's outstanding 2000 sewer bonds. The refunding of the 2000 bonds resulted in approximately \$600,000 in savings.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Overview of the Financial Statements

In addition to the MD&A (this section), the City's annual report consists of three other parts: (1) basic financial statements, (2) required supplemental information, and (3) an optional section that presents combining statements for nonmajor governmental, enterprise, internal service, and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the City:

Government-wide Financial Statements - These statements provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the City's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide financial statements and include the following:

- The statement of net assets presents information pertaining to all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Birmingham that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City include water and sewer disposal systems, automobile parking, and municipal golf courses.

The government-wide financial statements include not only the City of Birmingham itself (known as the primary government), but also the legally separate Baldwin Public Library and the Principal Shopping District, for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements - The remaining statements are fund financial statements. The City of Birmingham, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the City's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. The City's three fund financial statements include the following:

- **Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- **Proprietary Funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, offer short- and long-term financial information.
 - In fact, the City's Enterprise Funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
 - The City also utilizes Internal Service Funds (the other kind of proprietary fund) to report activities that provide supplies and services to the City's other programs and activities, such as the City's Equipment Fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included with governmental activities in the government-wide financial statements.
- **Fiduciary Funds** - Fiduciary funds provide information about resources held for the benefit of parties outside the government - like the retirement plan for the City's employees - in which the City acts solely as a trustee or agent. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Notes to the Financial Statements - The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information. This information includes budgetary comparisons for the City's General Fund and major Special Revenue Funds. It also includes combining statements for the City's nonmajor governmental funds, Internal Service Funds, and fiduciary funds. Immediately following the supplemental information is a statistical section, which provides certain information pertaining to general government revenues, expenditures, tax revenues and collections, and demographic and other statistical data.

Financial Analysis of the City as a Whole

Net Assets - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Birmingham, combined net assets increased 7.8 percent from last year to \$120 million (see Table A-1). The following table shows, in a condensed format, the net assets of the City as of June 30, 2004 and 2005:

Table A-1
City of Birmingham's Net Assets
(in millions)

| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change |
|------------------------------|----------------------------|----------------|-----------------------------|----------------|-----------------|-----------------|-------------------------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004-2005 |
| Assets | | | | | | | |
| Current and other assets | \$ 32.5 | \$ 35.1 | \$ 23.9 | \$ 21.1 | \$ 56.4 | \$ 56.2 | - |
| Capital assets | 53.5 | 55.1 | 70.3 | 74.8 | 123.8 | 129.9 | 4.8 |
| Total assets | 86.0 | 90.2 | 94.2 | 95.9 | 180.2 | 186.1 | 3.3 |
| Liabilities | | | | | | | |
| Current liabilities | 4.6 | 2.8 | 5.6 | 3.0 | 10.2 | 5.7 | (44.1) |
| Long-term liabilities | 20.6 | 21.4 | 38.4 | 39.3 | 59.0 | 60.8 | 3.1 |
| Total liabilities | 25.2 | 24.2 | 44.0 | 42.3 | 69.2 | 66.5 | (3.9) |
| Net Assets | | | | | | | |
| Invested in capital assets - | | | | | | | |
| Net of related debt | 38.3 | 39.2 | 31.0 | 35.7 | 69.3 | 74.9 | 8.1 |
| Restricted | 5.0 | 8.6 | - | - | 5.0 | 8.6 | 72.0 |
| Unrestricted | 17.5 | 18.2 | 19.2 | 17.9 | 36.7 | 36.1 | (1.6) |
| Total net assets | <u>\$ 60.8</u> | <u>\$ 66.0</u> | <u>\$ 50.2</u> | <u>\$ 53.6</u> | <u>\$ 111.0</u> | <u>\$ 119.6</u> | 7.8 |

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Over 60 percent of the City's total net assets is made up of its investment in capital assets, less any related debt used to acquire those assets. The City's net assets related to governmental activities increased \$5.2 million, or 8.6 percent, and net assets related to business-type activities increased \$3.4 million, or 6.8 percent over the 2004 fiscal year. The City has undertaken several major capital improvement projects. The \$15.7 million Park and Recreation improvements (governmental activities) and the \$32 million 10-year sewer improvement and \$15 million water water-main programs (business-type activities) have resulted in these increases. The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Restricted net assets of the City totaled \$8.7 million at June 30, 2005 and increased by 72 percent for the year. These net assets are reported in governmental activities and have limits on their use that are externally imposed by restrictions such as enabling legislation or bond covenants. These resources can only be used for the specific purposes for which they were intended, such as expenditures for major and local streets, building operations, or debt service activities. The remaining unrestricted net assets may be used to meet the City's ongoing operations. Unrestricted net assets related to governmental activities increased by \$700,000 or 4.0 percent.

Changes in Net Assets - The City's combined total revenue increased \$4.4 million, or 10.1 percent from 2004 to 2005 as shown in Table A-2. The City's revenue comes from two major sources: property taxes and charges for services. Approximately half of the City's total revenue comes from property taxes (51.5 percent in 2004 and 50.3 percent in 2005). Charges for services represented 37.8 percent of the total revenue in 2004 and 36.9 percent in 2005. The balance of the revenue is derived mainly from state and federal sources.

The City's combined total expenses increased \$2.3 million, or 6.3 percent, from 2004 to 2005. The City's expenses cover a wide range of services, with public safety and public works representing approximately 45 percent of total expenses. For both fiscal years, the City had revenue in excess of expenses for both governmental and business-type activities.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Table A-2 below and the narrative that follows consider the operations of governmental and business-type activities separately.

Table A-2
Changes in City of Birmingham's Net Assets
(in millions)

| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change |
|---------------------------------------|----------------------------|----------------|-----------------------------|----------------|-----------------|-----------------|-------------------------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004-2005 |
| Revenues | | | | | | | |
| Program revenue: | | | | | | | |
| Charges for services | \$ 4.6 | \$ 5.2 | \$ 11.6 | \$ 12.2 | \$ 16.2 | \$ 17.4 | 7.4 |
| Operating grants and contributions | 1.5 | 1.4 | - | - | 1.5 | 1.5 | - |
| Capital grants and contributions | 0.6 | 2.2 | 0.1 | - | 0.7 | 2.0 | 185.7 |
| General revenue: | | | | | | | |
| Property taxes | 18.9 | 19.5 | 3.2 | 4.2 | 22.1 | 23.8 | 7.7 |
| State-shared revenue | 1.8 | 1.8 | - | - | 1.8 | 1.8 | - |
| Unrestricted investment earnings | 0.4 | 0.5 | 0.2 | 0.3 | 0.6 | 0.8 | 33.3 |
| Total assets | 27.8 | 30.6 | 15.1 | 16.7 | 42.9 | 47.3 | 10.3 |
| Program Expenses | | | | | | | |
| General government | 4.2 | 4.2 | - | - | 4.2 | 4.2 | - |
| Public safety | 9.6 | 10.5 | - | - | 9.6 | 10.5 | 9.4 |
| Public works | 5.4 | 6.8 | - | - | 5.4 | 6.8 | 25.9 |
| Community and economic development | 1.6 | 1.6 | - | - | 1.6 | 1.6 | - |
| Recreation and culture | 1.4 | 1.5 | - | - | 1.4 | 1.5 | 7.1 |
| Interest on long-term debt | 0.9 | 0.8 | - | - | 0.9 | 0.8 | 11.1 |
| Water and sewer | - | - | 9.0 | 8.9 | 9.0 | 8.9 | 11.1 |
| Parking | - | - | 3.2 | 3.3 | 3.2 | 3.3 | 3.1 |
| Golf courses | - | - | 1.0 | 1.1 | 1.0 | 1.1 | 10.0 |
| Total expenses | 23.1 | 25.4 | 13.2 | 13.3 | 36.3 | 38.7 | 6.6 |
| Increase in Net Assets | 4.7 | 5.2 | 1.9 | 3.4 | 6.6 | 8.6 | 30.3 |
| Net Assets - Beginning of year | 56.1 | 60.8 | 48.3 | 50.2 | 104.4 | 111.0 | 6.3 |
| Net Assets - End of year | <u>\$ 60.8</u> | <u>\$ 66.0</u> | <u>\$ 50.2</u> | <u>\$ 53.6</u> | <u>\$ 111.0</u> | <u>\$ 119.6</u> | 7.7 |

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities - Total revenue for governmental activities increased \$2.8 million, or 10.1 percent. The increase is the result of an increase in property taxes of \$1 million. The increase in property taxes is attributable to negotiated wage increases, an overall increase in health care costs for both current employees and retirees, and an increase in funding for street improvements. The increase of \$1.4 million in capital grants and contributions is primarily the result of a one-time federal grant for the Maple Road-Eton to Coolidge reconstruction project.

Total expenses increased \$2.3 million or 10 percent. The increase in expenses was attributable to increases in public safety and public works. The \$.9 million increase in public safety was primarily the result of negotiated wage increases (\$.5 million) and increases in hospitalization and retiree health care costs (\$.3 million). Public works increased \$1.4 million or 26 percent. The increase is attributable to higher salaries and wages, equipment rental, and forestry work associated with removal of trees infected with the emerald ash borer. In addition, depreciation costs rose as a result of \$1.3 million in street and sidewalk improvements in the current year.

Business-type Activities - Total revenue for business-type activities increased by \$1.6 million, or 10.6 percent. In the prior year, property taxes were increased to fund the Quarton Lake Dam restoration project. Property taxes for water main improvements were reduced during that period. In fiscal year 2004-2005, the levy for water main improvements was restored, resulting in an increase of \$1 million. Charges for services increased \$.6 million primarily as a result of rate increases of 4.7 percent and 4.6 percent for the Water and Sewer Funds, respectively. The increases were required to pass along a 7.8 percent water rate increase and a 2.8 percent rate increase for sewage disposal from the authorities that provide these services to Birmingham.

Total expenses for business-type activities for fiscal year 2004-2005 totaled \$13.2 million, which is the same as fiscal year 2003-2004. The expenses remained the same as a result of a reduction of approximately \$300,000 in interest expense from last year primarily from refunding sewer and parking bonded debt. The decrease in interest expense offset increased expenses in the auto parking system and golf courses. The City was able to offset the increase in water purchased and sewer treatment costs by reducing operating and maintenance costs for the year.

Financial Analysis of the City's Funds

Governmental Funds - The analysis of the City's major funds begins on page 16, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. As noted earlier, the City of Birmingham uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as to show accountability for certain activities, such as special property tax millages. The City has 10 governmental funds, categorized into four fund types. Based on criteria set forth by the Governmental Accounting Standards Board, the City's major funds for fiscal year 2004-2005 include the General Fund, Major and Local Street Funds, and the Capital Projects Fund.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

As of June 30, 2005, the governmental funds of the City of Birmingham reported a combined fund balance of \$22.7 million. This represents an increase of \$2 million from the prior year, of which \$1.5 million is reserved for specific expenditures. The General Fund's unreserved fund balance at June 30, 2005 of \$6 million represents resources which may be used to meet the City's ongoing obligations to citizens and creditors, without legal restriction.

Proprietary Funds - In addition to governmental funds, the City uses proprietary funds, which provide similar type of information as that contained in the government-wide financial statements, but in more detail. The Water and Sewage Disposal Funds, Automobile Parking System Fund, Municipal Golf Courses Fund, and Internal Service Funds make up the City's proprietary funds.

Unrestricted net assets for the Water and Sewage Disposal Funds, Automobile Parking System Fund, and Municipal Golf Courses Fund decreased \$1.3 million, or 7.5 percent. The decrease in unrestricted net assets is the result of capital improvements made for water mains, sewer relief, and improvements to the parking decks made throughout the City.

General Fund Budgetary Highlights

Actual revenues for the year ended June 30, 2005 exceeded the amended budget by \$488,346, or 2 percent. This was primarily attributable to building activity performing better than expected, charges for services from the Sewage Disposal Fund and ice arena fees coming in more than budgeted, and revenues from the 48th District Court being greater than anticipated as a result of an increase in fines and fees collected by the court on behalf of the City. City departments overall stayed below budget, resulting in total expenditures lower than budget by \$619,033. The additional revenues received combined with better than expected performance by departments resulted in an increase to the General Fund's fund balance of \$1,107,379.

Differences between original budgeted revenues and the final amended budget included increases resulting from building activity (permits), additional state-shared revenues received (intergovernmental revenue), revenues from the court attributable to an increase in the City's caseload (fines), and better than expected interest income. These increases offset reductions in charges for services from ice arena fees and the Sewage Disposal Fund. In addition, other revenue was reduced as a result of an improvement project being delayed which is to be reimbursed by a builder. Increases in expenditures for public safety were the result of wage adjustments associated with settled labor contracts. This resulted in a corresponding decrease in the wage-adjustment account budgeted within general government. This account is adjusted downward and appropriate amounts transferred to the respective department as approved wage adjustments are made throughout the year. Transfers out increased as a result of additional funding approved for the street funds. Overall differences between original budgeted revenues and expenditures and the final amended budget were minimal, less than .4 percent.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital Assets

The City of Birmingham had a total of \$129.8 million invested in capital assets (net of accumulated depreciation) at the end of the fiscal year (see Table A-3). This was a net increase of 4.8 percent over last year. The City's investment in capital assets includes land, buildings, water and sewer lines, roads, highways and bridges, park facilities, and machinery and equipment.

Table A-3
City of Birmingham Capital Assets
(net of depreciation - in millions)

| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change |
|----------------------------|----------------------------|----------------|-----------------------------|----------------|-----------------|-----------------|-------------------------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004-2005 |
| Land | \$ 7.6 | \$ 7.8 | \$ 1.6 | \$ 1.6 | \$ 9.2 | \$ 9.4 | 2.2 |
| Buildings and improvements | 20.4 | 22.0 | 18.0 | 17.6 | 38.4 | 39.6 | 3.1 |
| Equipment | 3.0 | 2.9 | 0.3 | 0.1 | 3.3 | 3.0 | (9.1) |
| Infrastructure | 18.5 | 17.9 | 42.8 | 49.1 | 61.3 | 67.0 | 9.3 |
| Construction in progress | 4.0 | 4.4 | 7.6 | 6.4 | 11.6 | 10.8 | (6.9) |
| Total | <u>\$ 53.5</u> | <u>\$ 55.0</u> | <u>\$ 70.3</u> | <u>\$ 74.8</u> | <u>\$ 123.8</u> | <u>\$ 129.8</u> | 4.8 |

Governmental capital assets increased \$1.5 million or 2.8 percent over last year. Most of the increase (\$1.6 million) is the result of park and recreation improvements as a result of a \$15.7 million bond issue. Business-type capital assets increased \$4.5 million or 6.4 percent over last year. Major capital additions include \$4.4 million in sewer improvements and \$2.2 million in water main improvements.

Long-term Debt - The City's total indebtedness as of June 30, 2005 is \$59.4 million. Of this amount, \$34.7 million is general obligation bonds, which is an amount considerably below the debt limit of \$250 million. In addition, the City has contractual obligations totaling \$24.7 million. This amount represents the City's portion of Oakland County bonds related to three CSO abatement projects, the George W. Kuhn retention/treatment facility, and the North Arm Project.

During the year, the City also refinanced some of its existing debt to take advantage of favorable interest rates. The refinancing is expected to decrease future debt service payments by approximately \$.6 million.

City of Birmingham, Michigan

Management's Discussion and Analysis (Continued)

The City of Birmingham maintains an "AAA" rating from Standard & Poor's and Fitch and an "Aa1" rating from Moody's for general obligation debt. Additional information on the City's long-term debt can be found in Note 6 on pages 44 and 45 of this report.

Economic Factors and Next Year's Budgets and Rates

Revenue constraints with increased costs combined to present a challenge in developing the fiscal year 2005-2006 budget. The weak economy had lasted longer than anyone expected and the State hadn't recovered from over four years of weak performance. On the revenue side, as a result of continued state budget deficits and a slow state economy, further decreases in state-shared revenues (the City's third largest revenue source) were expected. On the expenditure side, costs were anticipated to continue to escalate for health care costs. These negative economic factors were offset by expected strong building activity, which correlates to the continued increase in property tax revenue as a result of the increase in the property tax base.

During the 2004-2005 fiscal year, the fund balance in the General Fund increased by \$1.1 million to \$7.3 million. Of this amount, \$1.4 million is legally restricted. The fund balance will continue to be maintained at a minimum of 10 percent of the current year's expenditures established to provide for unforeseen emergencies. The approved total millage levy of 15.0719 mills, which includes the City's operating, refuse, library, and debt service levies, represents a decrease from the prior year's levy of 15.4270 mills. General Fund property tax revenue is estimated at \$17.8 million for 2005-2006.

Request for Information

This financial report is designed to provide a general overview of the City of Birmingham's finances to the City's citizens, customers, investors, creditors and others who are interested in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Birmingham's Finance Department, P.O. Box 3001, Birmingham, MI 48012.

Basic Financial Statements

City of Birmingham, Michigan

Statement of Net Assets June 30, 2005

| | Primary Government | | | Component |
|---|----------------------|----------------------|-----------------------|---------------------|
| | Governmental | Business-type | Total | Units |
| | Activities | Activities | | |
| Assets | | | | |
| Cash and investments (Note 4) | \$ 27,225,415 | \$ 17,157,326 | \$ 44,382,741 | \$ 1,949,531 |
| Receivables - Net: | | | | |
| Customers | 403,211 | 2,515,412 | 2,918,623 | - |
| Special assessments | 1,174,812 | 119,605 | 1,294,417 | 92,262 |
| Delinquent personal property taxes | 94,592 | - | 94,592 | - |
| Inventories | 87,591 | 8,656 | 96,247 | - |
| Prepaid costs and other assets | 247,268 | 1,123,793 | 1,371,061 | 71,179 |
| Due from other governmental units | 1,095,305 | - | 1,095,305 | 54,488 |
| Restricted assets (Note 7) | 4,810,404 | 164,808 | 4,975,212 | 813,787 |
| Capital assets - Net (Note 5): | | | | |
| Assets subject to depreciation | 42,759,057 | 66,844,820 | 109,603,877 | 2,875,916 |
| Assets not subject to depreciation | 12,241,001 | 7,974,458 | 20,215,459 | 95,500 |
| Investment in joint venture - 48th District Court (Note 13) | 120,654 | - | 120,654 | - |
| Total assets | 90,259,310 | 95,908,878 | 186,168,188 | 5,952,663 |
| Liabilities | | | | |
| Accounts payable | 1,381,798 | 1,941,916 | 3,323,714 | 163,253 |
| Due to other governmental units | 10,850 | 51,208 | 62,058 | - |
| Accrued and other liabilities | 1,108,087 | 951,951 | 2,060,038 | 78,266 |
| Deferred revenue (Note 9) | 62,368 | - | 62,368 | - |
| Provision for uninsured losses and liabilities (Note 10) | 237,067 | - | 237,067 | - |
| Noncurrent liabilities (Note 6): | | | | |
| Due within one year | 1,496,457 | 2,917,603 | 4,414,060 | 4,023 |
| Due in more than one year | 19,950,639 | 36,405,122 | 56,355,761 | 105,536 |
| Total liabilities | 24,247,266 | 42,267,800 | 66,515,066 | 351,078 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 39,180,462 | 35,692,345 | 74,872,807 | 2,971,416 |
| Restricted: | | | | |
| Major and Local Streets | 6,504,085 | - | 6,504,085 | - |
| Solid waste | 907,418 | - | 907,418 | - |
| Debt service | 109,458 | - | 109,458 | - |
| Law and drug enforcement | 132,440 | - | 132,440 | - |
| Construction code activities | 1,109,393 | - | 1,109,393 | - |
| Other | - | - | - | 1,404,057 |
| Unrestricted | 18,068,788 | 17,948,733 | 36,017,521 | 1,226,112 |
| Total net assets | \$ 66,012,044 | \$ 53,641,078 | \$ 119,653,122 | \$ 5,601,585 |

City of Birmingham, Michigan

| | Program Revenues | | | |
|---------------------------------------|----------------------|----------------------|---------------------|---------------------|
| | Charges for | Operating | Capital Grants | |
| Expenses | Services | Grants and | and | |
| | | Contributions | Contributions | |
| Functions/Programs | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 4,185,288 | \$ 303,151 | \$ - | \$ 125,000 |
| Public safety | 10,548,261 | 1,733,626 | 163,562 | 18,130 |
| Public works | 6,747,200 | 291,266 | 1,164,502 | 1,939,128 |
| Community and economic development | 1,582,068 | 2,076,302 | 43,922 | - |
| Recreation and culture | 1,529,228 | 794,978 | 28,024 | 97,303 |
| Interest on long-term debt | 811,327 | - | 4,880 | - |
| Total governmental activities | 25,403,372 | 5,199,323 | 1,404,890 | 2,179,561 |
| Business-type activities: | | | | |
| Water and sewer | 8,854,306 | 7,279,784 | - | 13,659 |
| Automobile parking | 3,328,312 | 3,773,554 | - | - |
| Golf courses | 1,054,367 | 1,162,190 | - | - |
| Total business-type activities | 13,236,985 | 12,215,528 | - | 13,659 |
| Total primary government | <u>\$ 38,640,357</u> | <u>\$ 17,414,851</u> | <u>\$ 1,404,890</u> | <u>\$ 2,193,220</u> |
| Component units: | | | | |
| Baldwin Public Library | \$ 3,345,550 | \$ 689,837 | \$ 61,828 | \$ - |
| Principal Shopping District | 989,909 | 760,480 | 161,963 | - |
| Total component units | <u>\$ 4,335,459</u> | <u>\$ 1,450,317</u> | <u>\$ 223,791</u> | <u>\$ -</u> |
| Unrestricted general revenues: | | | | |
| Property taxes | | | | |
| State-shared revenues | | | | |
| Investment earnings | | | | |
| Miscellaneous | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |
| Change in Net Assets | | | | |
| Net Assets - Beginning of year | | | | |
| Net Assets - End of year | | | | |

Statement of Activities
Year Ended June 30, 2005

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|-----------------------|---------------------|
| Primary Government | | | Component Units |
| Governmental Activities | Business-type Activities | Total | |
| \$ (3,757,137) | \$ - | \$ (3,757,137) | \$ - |
| (8,632,943) | - | (8,632,943) | - |
| (3,352,304) | - | (3,352,304) | - |
| 538,156 | - | 538,156 | - |
| (608,923) | - | (608,923) | - |
| (806,447) | - | (806,447) | - |
| (16,619,598) | - | (16,619,598) | - |
| - | (1,560,863) | (1,560,863) | - |
| - | 445,242 | 445,242 | - |
| - | 107,823 | 107,823 | - |
| - | (1,007,798) | (1,007,798) | - |
| (16,619,598) | (1,007,798) | (17,627,396) | - |
| - | - | - | (2,593,885) |
| - | - | - | (67,466) |
| - | - | - | (2,661,351) |
| 19,463,836 | 4,172,129 | 23,635,965 | 2,640,772 |
| 1,799,241 | - | 1,799,241 | 81,893 |
| 526,333 | 282,853 | 809,186 | 71,543 |
| 2,002 | - | 2,002 | - |
| 21,287 | (21,287) | - | - |
| 21,812,699 | 4,433,695 | 26,246,394 | 2,794,208 |
| 5,193,101 | 3,425,897 | 8,618,998 | 132,857 |
| 60,818,943 | 50,215,181 | 111,034,124 | 5,468,728 |
| \$ 66,012,044 | \$ 53,641,078 | \$ 119,653,122 | \$ 5,601,585 |

City of Birmingham, Michigan

Governmental Funds Balance Sheet June 30, 2005

| | General Fund | Major Streets Fund | Local Streets Fund | Capital Projects Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------|-----------------------|--------------------------|--|--------------------------------|
| Assets | | | | | | |
| Cash and investments | \$ 7,378,196 | \$ 4,018,570 | \$ 1,387,039 | \$ 4,324,994 | \$ 1,308,387 | \$ 18,417,186 |
| Receivables - Net: | | | | | | |
| Customers | 718,131 | 333 | 7,795 | 89,282 | 535 | 816,076 |
| Special assessments | - | 349,045 | 754,726 | 71,040 | - | 1,174,811 |
| Delinquent personal property taxes | 218,875 | - | - | - | - | 218,875 |
| Prepaid items and other assets | 79,907 | - | - | - | - | 79,907 |
| Due from other governmental units | 845,943 | 132,563 | 55,799 | 55,446 | 5,554 | 1,095,305 |
| Restricted assets (Note 7) | - | - | - | 4,675,489 | - | 4,675,489 |
| Inventories | - | 62,517 | 25,006 | - | - | 87,523 |
| Total assets | \$ 9,241,052 | \$ 4,563,028 | \$ 2,230,365 | \$ 9,216,251 | \$ 1,314,476 | \$ 26,565,172 |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 568,545 | \$ 79,963 | \$ 186,288 | \$ 250,793 | \$ 142,550 | \$ 1,228,139 |
| Due to other funds (Note 2) | - | - | - | 10,850 | - | 10,850 |
| Accrued and other liabilities | 439,116 | 6,959 | 16,098 | 271,570 | 2,410 | 736,153 |
| Deferred revenue (Note 9) | 888,620 | 242,501 | 570,906 | 160,321 | - | 1,862,348 |
| Total liabilities | 1,896,281 | 329,423 | 773,292 | 693,534 | 144,960 | 3,837,490 |
| Fund Balances | | | | | | |
| Reserved for: | | | | | | |
| Encumbrances | 174,955 | 3,578,876 | 492,679 | 588,303 | - | 4,834,813 |
| Law and drug enforcement programs | - | - | - | - | 132,440 | 132,440 |
| Construction code activities | 1,109,393 | - | - | - | - | 1,109,393 |
| Prepays and inventory | 78,306 | 62,517 | 25,006 | - | - | 165,829 |
| Highway and street projects | - | 592,212 | 939,388 | - | - | 1,531,600 |
| Facility and park improvement projects | - | - | - | 4,205,554 | - | 4,205,554 |
| Solid waste | - | - | - | - | 907,418 | 907,418 |
| Debt service | - | - | - | - | 109,458 | 109,458 |
| Other | - | - | - | - | 20,200 | 20,200 |
| Unreserved - Reported in: | | | | | | |
| General Fund | 5,982,117 | - | - | - | - | 5,982,117 |
| Capital Projects Funds | - | - | - | 556,673 | - | 556,673 |
| Designated (Note 8) | - | - | - | 3,172,187 | - | 3,172,187 |
| Total fund balances | 7,344,771 | 4,233,605 | 1,457,073 | 8,522,717 | 1,169,516 | 22,727,682 |
| Total liabilities and fund balances | \$ 9,241,052 | \$ 4,563,028 | \$ 2,230,365 | \$ 9,216,251 | \$ 1,314,476 | \$ 26,565,172 |

City of Birmingham, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets June 30, 2005

| | |
|--|----------------------|
| Fund Balance - Total Governmental Funds | \$ 22,727,682 |
|--|----------------------|

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|---|------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds | 55,000,058 |
|---|------------|

| | |
|---|-----------|
| Allowance for uncollectible personal property taxes | (124,284) |
|---|-----------|

| | |
|---|-----------|
| Special assessment, parking fines, and other miscellaneous receivables are expected to be collected over several years and are not available to pay for current year expenditures | 1,479,901 |
|---|-----------|

| | |
|--|---------|
| Equity interest in 48th District Court is not reported in governmental funds | 120,654 |
|--|---------|

| | |
|---|--------------|
| Long-term liabilities are not due and payable in the current period and are not reported in the funds, including related accrued interest | (21,447,096) |
|---|--------------|

| | |
|---|------------------|
| Internal Service Funds are included as part of governmental activities, net of amounts included above as capital assets | <u>8,255,129</u> |
|---|------------------|

| | |
|---|-----------------------------|
| Net Assets - Governmental Activities | <u>\$ 66,012,044</u> |
|---|-----------------------------|

City of Birmingham, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

| | General Fund | Major Streets Fund | Local Streets Fund | Capital Projects Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------|-----------------------|-----------------------------|--|--------------------------------|
| Revenues | | | | | | |
| Property taxes and special assessments | \$ 16,756,534 | \$ 143,864 | \$ 407,229 | \$ 43,323 | \$ 2,842,566 | \$ 20,193,516 |
| Licenses and permits | 2,325,043 | - | - | - | - | 2,325,043 |
| Federal grants | 32,552 | - | - | - | 134,600 | 167,152 |
| State sources | 1,903,228 | 1,819,581 | 344,921 | 18,130 | - | 4,085,860 |
| Charges for services | 2,130,505 | - | 3,494 | - | 36,662 | 2,170,661 |
| Fines and forfeitures | 1,611,650 | - | - | - | - | 1,611,650 |
| Use of money and property | 253,972 | 40,004 | 27,175 | 160,973 | 27,676 | 509,800 |
| Other | 225,661 | - | - | 11,037 | - | 236,698 |
| Total revenues | 25,239,145 | 2,003,449 | 782,819 | 233,463 | 3,041,504 | 31,300,380 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government | 4,975,125 | - | - | - | - | 4,975,125 |
| Public safety | 9,671,124 | - | - | - | 80,799 | 9,751,923 |
| Public works | 3,266,816 | - | - | - | - | 3,266,816 |
| Highway and streets | - | 1,401,360 | 1,373,578 | - | - | 2,774,938 |
| Community and economic development | 1,588,888 | - | - | - | 43,922 | 1,632,810 |
| Solid waste disposal | - | - | - | - | 1,494,526 | 1,494,526 |
| Contributions | 940,609 | - | - | - | - | 940,609 |
| Capital outlay | - | 540,566 | 662,572 | 1,914,057 | - | 3,117,195 |
| Debt service | - | - | - | - | 1,350,825 | 1,350,825 |
| Total expenditures | 20,442,562 | 1,941,926 | 2,036,150 | 1,914,057 | 2,970,072 | 29,304,767 |
| Excess of Revenues Over (Under) | | | | | | |
| Expenditures | 4,796,583 | 61,523 | (1,253,331) | (1,680,594) | 71,432 | 1,995,613 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | 52,194 | 1,858,000 | 1,952,872 | 200,000 | - | 4,063,066 |
| Transfers out | (3,791,398) | (198,187) | - | - | - | (3,989,585) |
| Total other financing sources (uses) | (3,739,204) | 1,659,813 | 1,952,872 | 200,000 | - | 73,481 |
| Net Change in Fund Balance | 1,057,379 | 1,721,336 | 699,541 | (1,480,594) | 71,432 | 2,069,094 |
| Fund Balances - Beginning of year | 6,287,392 | 2,512,269 | 757,532 | 10,003,311 | 1,098,084 | 20,658,588 |
| Fund Balances - End of year | \$ 7,344,771 | \$ 4,233,605 | \$ 1,457,073 | \$ 8,522,717 | \$ 1,169,516 | \$ 22,727,682 |

City of Birmingham, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ 2,069,094**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 1,701,848

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end 365,129

Accrued interest on long-term liabilities 14,499

Payments to bond escrow agent and bond principal are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 525,000

Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities (105,501)

Governmental funds report proceeds from sale; in the statement of activities, only the respective gain or loss is recognized (31,229)

Internal Service Funds are also included as governmental activities 931,788

Transfer of district court equity (277,527)

Change in Net Assets of Governmental Activities **\$ 5,193,101**

City of Birmingham, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

| | Water Supply System Receiving | Sewage Disposal System | Automobile Parking System | Golf Courses (Other Nonmajor Enterprise Fund) | Total | Internal Service Funds |
|---|----------------------------------|---------------------------|------------------------------|--|----------------------|------------------------------|
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and investments | \$ 5,048,341 | \$ 7,745,924 | \$ 3,985,704 | \$ 396,661 | \$ 17,176,630 | \$ 8,808,228 |
| Receivables - Net - Customers | 921,758 | 1,629,304 | 79,745 | 4,210 | 2,635,017 | 925 |
| Inventories | - | - | 8,656 | - | 8,656 | 68 |
| Total current assets | 5,970,099 | 9,375,228 | 4,074,105 | 400,871 | 19,820,303 | 8,809,221 |
| Noncurrent assets: | | | | | | |
| Other assets | - | 1,034,151 | 88,815 | 826 | 1,123,792 | 93,953 |
| Restricted assets (Note 7) | - | 164,808 | - | - | 164,808 | 134,915 |
| Capital assets (Note 5) | 11,197,167 | 44,144,463 | 18,095,031 | 1,382,617 | 74,819,278 | 2,479,901 |
| Total noncurrent assets | 11,197,167 | 45,343,422 | 18,183,846 | 1,383,443 | 76,107,878 | 2,708,769 |
| Total assets | 17,167,266 | 54,718,650 | 22,257,951 | 1,784,314 | 95,928,181 | 11,517,990 |
| Liabilities | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 633,821 | 1,239,290 | 46,544 | 22,260 | 1,941,915 | 153,657 |
| Due to other funds (Note 2) | 19,304 | 51,208 | - | - | 70,512 | - |
| Provision for uninsured losses and liabilities (Note 10) | - | - | - | - | - | 237,067 |
| Accrued and other liabilities | 147,930 | 509,513 | 263,934 | 30,574 | 951,951 | 47,442 |
| Current portion of long-term debt and compensated absences (Note 6) | 9,467 | 1,825,884 | 1,079,684 | 2,568 | 2,917,603 | - |
| Total current liabilities | 810,522 | 3,625,895 | 1,390,162 | 55,402 | 5,881,981 | 438,166 |
| Noncurrent liabilities: | | | | | | |
| Provision for compensated absences | 2,861 | - | 9,709 | 1,694 | 14,264 | 344,794 |
| Long-term debt - Net of current portion (Note 6) | - | 34,665,858 | 1,725,000 | - | 36,390,858 | - |
| Total noncurrent liabilities | 2,861 | 34,665,858 | 1,734,709 | 1,694 | 36,405,122 | 344,794 |
| Total liabilities | 813,383 | 38,291,753 | 3,124,871 | 57,096 | 42,287,103 | 782,960 |
| Net Assets | | | | | | |
| Investment in capital assets - Net of related debt | 11,197,167 | 7,817,529 | 15,295,032 | 1,382,617 | 35,692,345 | 2,479,901 |
| Unrestricted | 5,156,716 | 8,609,368 | 3,838,048 | 344,601 | 17,948,733 | 8,255,129 |
| Total net assets | <u>\$ 16,353,883</u> | <u>\$ 16,426,897</u> | <u>\$ 19,133,080</u> | <u>\$ 1,727,218</u> | <u>\$ 53,641,078</u> | <u>\$ 10,735,030</u> |

City of Birmingham, Michigan

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2005

| | Water Supply System Receiving | Sewage Disposal System | Automobile Parking System | Golf Courses (Other Nonmajor Enterprise Fund) | Total | Internal Service Funds |
|--|----------------------------------|---------------------------|------------------------------|--|----------------------|------------------------------|
| Operating Revenues | | | | | | |
| Sale of water | \$ 2,757,117 | \$ - | \$ - | \$ - | \$ 2,757,117 | \$ - |
| Sewage disposal charges | - | 4,522,667 | - | - | 4,522,667 | - |
| Golf course fees and charges | - | - | - | 1,162,190 | 1,162,190 | - |
| Charges for services | - | - | - | - | - | 5,492,250 |
| Automobile parking system fees and charges | - | - | 3,773,554 | - | 3,773,554 | - |
| Total operating revenues | 2,757,117 | 4,522,667 | 3,773,554 | 1,162,190 | 12,215,528 | 5,492,250 |
| Operating Expenses | | | | | | |
| Cost of water produced/purchased | 1,226,086 | - | - | - | 1,226,086 | - |
| Cost of sewage treatment | - | 2,633,750 | - | - | 2,633,750 | - |
| Operation and maintenance | 1,178,570 | 537,842 | 2,259,266 | 730,793 | 4,706,471 | 1,260,269 |
| General and administrative | 107,103 | 271,250 | 139,093 | 290,700 | 808,146 | 2,553,115 |
| Depreciation and amortization (Note 5) | 398,358 | 1,105,407 | 867,195 | 32,874 | 2,403,834 | 759,545 |
| Total operating expenses | 2,910,117 | 4,548,249 | 3,265,554 | 1,054,367 | 11,778,287 | 4,572,929 |
| Operating Income (Loss) | (153,000) | (25,582) | 508,000 | 107,823 | 437,241 | 919,321 |
| Nonoperating Revenue (Expenses) | | | | | | |
| Investment income | 82,595 | 148,847 | 51,667 | 13,403 | 296,512 | 115,845 |
| Interest expense | - | (1,395,940) | (62,758) | - | (1,458,698) | - |
| Loss on disposal of assets | - | - | - | - | - | (141,085) |
| Property taxes | 997,320 | 3,174,809 | - | - | 4,172,129 | - |
| Total nonoperating revenue (expenses) | 1,079,915 | 1,927,716 | (11,091) | 13,403 | 3,009,943 | (25,240) |
| Income - Before contributions and transfers | 926,915 | 1,902,134 | 496,909 | 121,226 | 3,447,184 | 894,081 |
| Capital Contributions | - | - | - | - | - | 37,707 |
| Transfers from (to) Other Funds | - | (48,750) | 47,463 | (20,000) | (21,287) | - |
| Change in Net Assets | 926,915 | 1,853,384 | 544,372 | 101,226 | 3,425,897 | 931,788 |
| Net Assets - Beginning of year | 15,426,968 | 14,573,513 | 18,588,708 | 1,625,992 | 50,215,181 | 9,803,242 |
| Net Assets - End of year | \$ 16,353,883 | \$ 16,426,897 | \$ 19,133,080 | \$ 1,727,218 | \$ 53,641,078 | \$ 10,735,030 |

City of Birmingham, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2005

| | Water Supply System Receiving | Sewage Disposal System | Automobile Parking System | Golf Courses (Other Nonmajor Enterprise Fund) | Total | Internal Service Funds |
|--|-------------------------------------|---------------------------|------------------------------|---|----------------------|------------------------------|
| Cash Flows from Operating Activities | | | | | | |
| Receipts from customers | \$ 2,694,999 | \$ 4,367,908 | \$ 3,790,652 | \$ 1,159,260 | \$ 12,012,819 | \$ 5,492,249 |
| Payments to suppliers | (1,516,196) | (3,977,537) | (2,380,528) | (394,981) | (8,269,242) | (2,865,101) |
| Payments to employees | (770,818) | (294,727) | (255,731) | (622,468) | (1,943,744) | (712,790) |
| Net cash provided by operating activities | 407,985 | 95,644 | 1,154,393 | 141,811 | 1,799,833 | 1,914,358 |
| Cash Flows from Noncapital Financing Activities - Transfers to/from other funds | - | - | - | (20,000) | (20,000) | - |
| Cash Flows from Capital and Related Financing Activities | | | | | | |
| Contributed capital | - | - | - | - | - | 37,707 |
| Principal and interest paid on capital debt | 1,596 | (10,690,211) | (1,138,939) | (669) | (11,828,223) | - |
| Proceeds from issuance of debt | - | 9,930,000 | - | - | 9,930,000 | - |
| Purchase of capital assets | (2,191,467) | (5,662,996) | (349,635) | - | (8,204,098) | (718,114) |
| Proceeds from sale of capital assets | - | 1,264,055 | - | - | 1,264,055 | 36,166 |
| Property taxes | 997,320 | 1,105,407 | - | - | 2,102,727 | - |
| Net cash used in capital and related financing activities | (1,192,551) | (4,053,745) | (1,488,574) | (669) | (6,735,539) | (644,241) |
| Cash Flows from Investing Activities - Interest received on investments | 82,595 | 148,847 | 51,667 | 13,408 | 296,517 | 115,841 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (701,971) | (3,809,254) | (282,514) | 134,550 | (4,659,189) | 1,385,958 |
| Cash and Cash Equivalents - Beginning of year | 5,750,312 | 9,208,338 | 4,268,218 | 262,111 | 19,488,979 | 7,557,185 |
| Cash and Cash Equivalents - End of year | <u>\$ 5,048,341</u> | <u>\$ 5,399,084</u> | <u>\$ 3,985,704</u> | <u>\$ 396,661</u> | <u>\$ 14,829,790</u> | <u>\$ 8,943,143</u> |
| Balance Sheet Classification of Cash and Cash Equivalents | | | | | | |
| Cash and investments | \$ 5,048,341 | \$ 7,745,924 | \$ 3,985,704 | \$ 396,661 | \$ 17,176,630 | \$ 8,808,228 |
| Restricted investments (Note 4) | - | 164,808 | - | - | 164,808 | 134,915 |
| Less amounts classified as investments (Note 1) | - | (2,511,648) | - | - | (2,511,648) | - |
| Total cash and cash equivalents | <u>\$ 5,048,341</u> | <u>\$ 5,399,084</u> | <u>\$ 3,985,704</u> | <u>\$ 396,661</u> | <u>\$ 14,829,790</u> | <u>\$ 8,943,143</u> |

City of Birmingham, Michigan

Proprietary Fund Statement of Cash Flows (Continued) Year Ended June 30, 2005

| | Water Supply System Receiving | Sewage Disposal System | Automobile Parking System | Golf Courses (Other Nonmajor Enterprise Fund) | Total | Internal Service Funds |
|---|-------------------------------------|---------------------------|------------------------------|---|---------------------|------------------------------|
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | | | | |
| Operating income (loss) | \$ (153,000) | \$ (25,582) | \$ 508,000 | \$ 107,823 | \$ 437,241 | \$ 919,321 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | | | |
| Depreciation and amortization | 398,358 | 1,105,407 | 867,195 | 32,874 | 2,403,834 | 759,545 |
| Changes in assets and liabilities: | | | | | | |
| Receivables | (81,421) | (154,759) | 17,097 | (2,926) | (222,009) | - |
| Other assets | 115 | (972,739) | 29,605 | 128 | (942,891) | 18,773 |
| Due from other governmental units | 19,304 | - | - | - | 19,304 | - |
| Inventory | - | - | (1,597) | - | (1,597) | - |
| Accounts payable | 209,465 | 123,569 | (219,152) | (742) | 113,140 | 95,879 |
| Due to other funds | - | 3,368 | (11,635) | - | (8,267) | - |
| Accrued and other liabilities | 15,164 | 16,380 | (35,120) | 4,654 | 1,078 | 120,840 |
| Net cash provided by operating activities | <u>\$ 407,985</u> | <u>\$ 95,644</u> | <u>\$ 1,154,393</u> | <u>\$ 141,811</u> | <u>\$ 1,799,833</u> | <u>\$ 1,914,358</u> |

Noncash Investing, Capital, and Related Financing Activities - During the year, the General Fund and Capital Projects Fund paid \$37,707 for equipment and contributed it to the Equipment Fund.

City of Birmingham, Michigan

Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2005

| | Pension and Other Employee Benefits | Agency Fund |
|--|--|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 2,510,587 | \$ 1,817,159 |
| Investments: | | |
| U.S. government securities | 11,260,376 | - |
| Stocks | 69,539,116 | - |
| Bonds | 16,999,735 | - |
| Receivables - Accrued interest | 383,715 | 4,101 |
| Due from other funds | - | 81,362 |
| Other assets | 15,678 | - |
| | <u>100,709,207</u> | <u>\$ 1,902,622</u> |
| Liabilities | | |
| Accounts payable | 9,011 | \$ 107,657 |
| Accrued and other liabilities | 276,460 | 1,794,965 |
| | <u>285,471</u> | <u>\$ 1,902,622</u> |
| Net Assets - Held in trust for pension and other employee benefits | <u>\$ 100,423,736</u> | |

City of Birmingham, Michigan

Fiduciary Funds **Statement of Changes in Fiduciary Net Assets** **Year Ended June 30, 2005**

| | <u>Pension and Other Employee Benefits</u> |
|---|--|
| Additions | |
| Investment income: | |
| Interest and dividends | \$ 2,545,565 |
| Net increase in fair value of investments | 4,880,515 |
| Less investment expenses | <u>(555,757)</u> |
| Net investment income | 6,870,323 |
| Contributions - Employees and employer | 2,413,549 |
| Other revenue | <u>187,303</u> |
| Total additions | 9,471,175 |
| Deductions | |
| Benefit payments | 4,262,611 |
| Refunds of contributions | 276,075 |
| Administrative expenses and other | <u>248,788</u> |
| Total deductions | <u>4,787,474</u> |
| Net Increase | 4,683,701 |
| Net Assets Held in Trust for Pension and Other Employee Benefits | |
| Beginning of year | <u>95,740,035</u> |
| End of year | <u><u>\$ 100,423,736</u></u> |

City of Birmingham, Michigan

Component Units Statement of Net Assets June 30, 2005

| | Baldwin Public Library | Principal Shopping District | Totals |
|---|------------------------------|-----------------------------------|---------------------|
| Assets | | | |
| Cash and investments | \$ 1,457,433 | \$ 492,098 | \$ 1,949,531 |
| Receivables | - | 92,262 | 92,262 |
| Due from other governmental units | 54,488 | - | 54,488 |
| Capital assets | 2,969,151 | 2,265 | 2,971,416 |
| Restricted assets | 813,787 | - | 813,787 |
| Other | - | 71,179 | 71,179 |
| Total assets | 5,294,859 | 657,804 | 5,952,663 |
| Liabilities | | | |
| Accounts payable | 114,259 | 48,994 | 163,253 |
| Accrued and other liabilities | 67,559 | 10,707 | 78,266 |
| Noncurrent liabilities: | | | |
| Due within one year | - | 4,023 | 4,023 |
| Due in more than one year | 103,991 | 1,545 | 105,536 |
| Total liabilities | 285,809 | 65,269 | 351,078 |
| Net Assets | | | |
| Investment in capital assets - Net of related debt | 2,969,151 | 2,265 | 2,971,416 |
| Restricted | 813,787 | 590,270 | 1,404,057 |
| Unrestricted | 1,226,112 | - | 1,226,112 |
| Total net assets | <u>\$ 5,009,050</u> | <u>\$ 592,535</u> | <u>\$ 5,601,585</u> |

City of Birmingham, Michigan

| | | Program Revenues | |
|--|----------------------------|----------------------------|--------------------------|
| | | Charges for | Operating |
| | Expenses | Services | Grants and |
| | | | Contributions |
| Baldwin Public Library - Culture and recreation | \$ 3,345,550 | \$ 689,837 | \$ 61,828 |
| Principal Shopping District - Community development | <u>989,909</u> | <u>760,480</u> | <u>161,963</u> |
| Total governmental activities | <u>\$ 4,335,459</u> | <u>\$ 1,450,317</u> | <u>\$ 223,791</u> |

General revenues:

Taxes

State sources

Use of money and property

Total general revenues

Increase (Decrease) in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
June 30, 2005**

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|--------------------------------|----------------------------|
| Baldwin Public Library | Principal Shopping District | Total |
| \$ (2,593,885) | \$ - | \$ (2,593,885) |
| - | (67,466) | (67,466) |
| (2,593,885) | (67,466) | (2,661,351) |
| 2,640,772 | - | 2,640,772 |
| 81,893 | - | 81,893 |
| 66,006 | 5,537 | 71,543 |
| 2,788,671 | 5,537 | 2,794,208 |
| 194,786 | (61,929) | 132,857 |
| 4,814,264 | 654,464 | 5,468,728 |
| <u>\$ 5,009,050</u> | <u>\$ 592,535</u> | <u>\$ 5,601,585</u> |

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Birmingham (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Birmingham:

Reporting Entity

The City is governed by an elected seven-member commission. As required by generally accepted accounting principles, these financial statements present the City of Birmingham and its component units.

Discretely Presented Component Units - The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The component units are reported within the component units column in the combined financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

- a. The Baldwin Public Library is governed by a six-member board elected directly by the citizens of Birmingham and funded by a specially voted property tax levy. However, the city commission approves the Library's annual budget, levies the Library millage, and provides the Library facilities. In addition, the Library is not able to issue its own debt. As a result, the Library is fiscally dependent on the City.
- b. The Principal Shopping District was created to promote economic activity within the principal shopping districts of the City by conducting market research and public relations campaigns, developing, coordinating, and conducting retail and institutional promotions, and sponsoring special events and related activities. Its board consists of eight to 12 members appointed by the city manager with the concurrence of the city commission. The city commission is responsible for approving the District's budget and setting the amount of its annual assessment.

The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation, whose governing body was selected by the City Commission, transferred its remaining assets to the Principal Shopping District during the year ended June 30, 1994 and is currently inactive. Therefore, there are no financial assets or operations to be reported.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Complete financial statements of the active component units can be obtained from their respective administrative offices at the addresses below:

Baldwin Public Library
300 West Merrill
Birmingham, MI 48012-3002

Principal Shopping District
798 North Woodward
Birmingham, MI 48009

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines, permits, and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

The government reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Major Streets and Local Street Funds - The Major Streets and Local Streets Funds account for the resources of state gas and weight tax revenues that are restricted for use on major and local streets.

Capital Projects Fund - The Capital Projects Fund accounts for the financial resources such as proceeds of bond issues, transfers from other funds, and other revenue necessary for the purpose of constructing or acquiring major capital improvements of the City such as a fire training tower, enhancements to the City's parks, and streetscape improvements. Improvements to the City's roads, water and sewer infrastructure, parking system, golf courses, and those projects financed primarily by special assessments are accounted for in other funds.

The government reports the following major proprietary funds:

Automobile Parking System Fund - The Automobile Parking System Fund accounts for the activities of the parking structures and meters.

Water Supply System Receiving Fund - The Water Supply System Receiving Fund accounts for water sales that finance water purchased from the Southeastern Oakland County Water Authority and the installation and maintenance of meters and mains within the City.

Sewage Disposal System Fund - The Sewage Disposal System Fund accounts for the activities of the sewage collection system. The City of Birmingham disposes of sewage through two county-operated facilities. Operating in the north and southeastern sections of the City is the Southeastern Oakland County Sewage Disposal District, and in the southwestern section of the City, sewage and storm disposal is provided by the Evergreen-Farmington System.

Additionally, the government reports the following fund types:

Internal Service Funds - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the government on a cost reimbursement basis.

Pension and Other Employees' Benefits Fund - The Pension and Other Employees' Benefits Fund accounts for the activities of the employees' retirement system, which accumulates resources for pension benefit payments to qualified employees and for health care benefits provided to employees during retirement.

Agency Funds - The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for water sales and services, sewage disposal, golf course, and automobile parking system fees and charges. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The City's 2004 ad valorem tax is levied and collectible on July 1, 2004, and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City totaled \$1,710,985,711, on which ad valorem taxes levied consisted of 11.7119 mills for operating purposes. These mills were allocated to the General Fund (9.7751), the Water Fund (.5850), the Sewer Fund (1.3518), .8704 mills for refuse services, and 1.2990 mills for debt service. This resulted in \$20.1 million for operating expenses, \$1.5 million for refuse services, and \$2.2 million for debt service, exclusive of any Michigan Tax Tribunal or Board of Review adjustments. These amounts are recognized in the respective General, Special Revenue, Debt Service, and Enterprise Funds financial statements as tax revenue.

Component Unit (Baldwin Public Library) Property Taxes - Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls. The City's property tax revenue for the fiscal year ended June 30, 2005 is based on the 2004 levy, which was billed July 1, 2004.

The 2004 taxable value totaled \$1,715,186,920; the Library's millage rate was 1.5457 mills, which resulted in property tax billings of \$2,651,164. The amount recognized as revenue reflects reductions for Board of Review, Michigan Tax Tribunal, and delinquencies, as well as recoveries of prior year delinquencies.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average.

Receivables - All customer receivables are shown net of allowance for uncollectible amounts. For the year ended June 30, 2005, there was approximately \$414,000 in allowances for parking fines and approximately \$124,000 in an allowance for delinquent personal property taxes. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds, with the exception of those in the Major Streets and Local Streets Funds, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|--------------------------------------|-------------|
| Roads and sidewalks | 15-25 years |
| Buildings and improvements | 10-50 years |
| Improvements other than buildings | 10-50 years |
| Land improvements | 10-50 years |
| Machinery and equipment | 5-10 years |
| Water and sewer distribution systems | 40-50 years |

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is calculated for the full cost of vacation leave benefits and a portion of the sick leave benefits when accumulated sick leave hours exceed a certain balance. Upon termination or retirement, an employee is entitled to any unused vacation leave benefits. Only upon retirement, however, can an employee be paid a portion of their unused sick leave balance, provided their sick leave balance is over a certain amount. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only for those employees who have terminated as of the end of the year.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Interfund Receivables, Payables, and Transfers

For the year ended June 30, 2005, interfund balances reported in the fund statements were as follows:

| Receivable Fund | Payable Fund | Amount |
|--------------------------|-------------------------------|------------------|
| Due to/from other funds: | | |
| Agency Fund | Capital Projects Fund | \$ 10,850 |
| Agency Fund | Sewage Disposal System Fund | 51,208 |
| Agency Fund | Water Supply System Receiving | <u>19,304</u> |
| Total | | <u>\$ 81,362</u> |

These interfund balances are caused by the normal time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund statements were follows:

| | Transfers Out | | | | |
|-----------------------|---------------------|-------------------|------------------|------------------|---------------------|
| | General Fund | Major Streets | Enterprise Funds | Component Units | Total |
| Transfers in: | | | | | |
| General Fund | \$ - | \$ - | \$ 20,000 (3) | \$ 32,194 (7) | \$ 52,194 |
| Major Streets Fund | 1,858,000 (1) | - | - | - | 1,858,000 |
| Local Streets Fund | 1,705,935 (1) | 198,187 (5) | 48,750 (6) | - | 1,952,872 |
| Capital Projects Fund | 200,000 (2) | - | - | - | 200,000 |
| Enterprise Funds | 47,463 (4) | - | - | - | 47,463 |
| Total | <u>\$ 3,811,398</u> | <u>\$ 198,187</u> | <u>\$ 68,750</u> | <u>\$ 32,194</u> | <u>\$ 4,110,529</u> |

The following describes the nature of significant transfers:

- (1) Transfers of discretionary funds to be used for the benefit of the community
- (2) Transfers for capital improvements
- (3) Fee in lieu of taxes
- (4) Transfer for Baldwin House parking spaces
- (5) 25 percent transfer of gas and weight taxes as allowed by Act 51
- (6) Transfer to cover cost of repairing Washington Blvd. which was damaged during installation of sewers
- (7) Transfer for administrative charges

Note 3 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs.

A summary of the cumulative surplus and activity for the year ended June 30, 2005 is as follows:

| | |
|----------------------------------|---------------------|
| Surplus as of June 30, 2004 | \$ 630,725 |
| Building permit revenue | 1,909,818 |
| Related expenses: | |
| Direct costs | \$ 954,996 |
| Estimated indirect costs | <u>476,154</u> |
| Total construction code expenses | <u>1,431,150</u> |
| Surplus as of June 30, 2005 | <u>\$ 1,109,393</u> |

Note 3 - Stewardship, Compliance, and Accountability (Continued)

The above surplus amount is related primarily to large commercial construction projects within the City. These projects have resulted in greater than usual building permit revenues. The surplus is therefore not expected to remain over future years and has been reserved in the General Fund.

Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool.

The Pension Trust Fund and the Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small business, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated two banks for the deposit of local unit funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs. The City's deposits and investment policies are in accordance with statutory authority.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Deposits and Investments (Continued)

The City's cash and investments are subject to three types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy restricts depository accounts to federally insured institutions located within the state of Michigan (consistent with state law). At year end, the City had \$120,305 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's general investment policy restricts the average maturity of investments to 2-1/2 years. The maximum maturities for investments are: U.S. Treasuries and agencies - five years, certificates of deposits - one year, commercial paper - 270 days, bankers' acceptances - 184 days, and repurchase agreements - 60 days. The City's pension and retiree health care investment policy restricts cash equivalents to a maturity of one year or less. At year end, the City's investments have the following range of maturity dates:

| Investment | Fair | Maturity (Years) | | | |
|---------------------|---------------|------------------|---------------|-----------|-----------|
| Type | Value | < 1 | 1 - 5 | 6 - 10 | > 10 |
| U.S. Treasury: | | | | | |
| General investments | \$ 40,721,200 | \$ 9,907,990 | \$ 30,813,210 | \$ - | \$ - |
| Retirement Fund | 2,569,672 | - | 1,094,531 | 642,556 | 832,585 |
| Retiree Health Care | 462,343 | - | 82,440 | 304,625 | 75,278 |
| U.S. agency: | | | | | |
| General investments | 2,545,325 | - | 2,545,325 | - | - |
| Retirement Fund | 7,322,232 | 1,000,625 | 707,080 | 1,345,912 | 4,268,615 |
| Retiree Health Care | 906,312 | 86,247 | 224,208 | 174,398 | 421,459 |
| Corporate bonds: | | | | | |
| Retirement Fund | 15,371,526 | 2,250,187 | 6,143,113 | 3,192,999 | 3,785,227 |
| Retiree Health Care | 1,628,209 | 95,911 | 635,082 | 462,712 | 434,504 |

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's general investment policy further limits investments to: commercial paper to the highest rating (A-1/P-1); bankers' acceptances whose long-term debt rating is at least an A; obligations of this state or its political subdivisions to the highest rating (A-1/P-1); pooled funds with a rating of at least an A. The City's retirement and retiree health care funds' investment policies require the bond portfolio to have at least 80 percent of its holdings in securities rated no less than an A. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment Type | Rating | Fair Value | Rating Agency |
|------------------------|---------|---------------|---------------|
| U.S. agency securities | AAA | \$ 10,742,461 | S&P |
| Corporate bonds | AAA | 4,556,053 | S&P |
| | AA+ | 619,278 | S&P |
| | AA | 2,096,506 | S&P |
| | AA- | 3,142,785 | S&P |
| | A+ | 1,848,282 | S&P |
| | A | 1,976,379 | S&P |
| | A- | 1,298,238 | S&P |
| | BBB+ | 929,640 | S&P |
| | BBB | 255,747 | S&P |
| | BBB- | 276,830 | S&P |
| Pooled funds | Unrated | 12,565,383 | |
| | AAA | 55,881 | S&P |

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

| | Balance July 1, 2004 | Additions | Disposals and Adjustments | Balance June 30, 2005 |
|---------------------------------------|-------------------------|---------------------|---------------------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 7,635,190 | \$ 190,134 | \$ - | \$ 7,825,324 |
| Construction in progress | 3,994,430 | 2,534,730 | 2,113,483 | 4,415,677 |
| Subtotal | 11,629,620 | 2,724,864 | 2,113,483 | 12,241,001 |
| Capital assets being depreciated: | | | | |
| Roads and sidewalks | 35,710,033 | 1,291,560 | 893,558 | 36,108,035 |
| Buildings and improvements | 22,713,492 | 173,632 | 2,219 | 22,884,905 |
| Improvements other than buildings | 632,587 | 1,587,140 | - | 2,219,727 |
| Machinery and equipment | 9,954,357 | 943,827 | 1,084,716 | 9,813,468 |
| Subtotal | 69,010,469 | 3,996,159 | 1,980,493 | 71,026,135 |
| Accumulated depreciation: | | | | |
| Roads and sidewalks | 17,180,790 | 1,902,985 | 893,558 | 18,190,217 |
| Buildings and improvements | 2,956,739 | 150,432 | 200 | 3,106,971 |
| Improvements other than buildings | 12,830 | 25,872 | - | 38,702 |
| Machinery and equipment | 6,913,802 | 901,252 | 883,866 | 6,931,188 |
| Subtotal | 27,064,161 | 2,980,541 | 1,777,624 | 28,267,078 |
| Net capital assets being depreciated | 41,946,308 | 1,015,618 | 202,869 | 42,759,057 |
| Net capital assets | <u>\$ 53,575,928</u> | <u>\$ 3,740,482</u> | <u>\$ 2,316,352</u> | <u>\$ 55,000,058</u> |

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2004 | Additions | Disposals and Adjustments | Balance June 30, 2005 |
|---------------------------------------|-------------------------|--------------|---------------------------------|--------------------------|
| Business-type Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,597,920 | \$ - | \$ - | \$ 1,597,920 |
| Construction in progress | 7,554,841 | 85,752 | 1,264,055 | 6,376,538 |
| Subtotal | 9,152,761 | 85,752 | 1,264,055 | 7,974,458 |
| Capital assets being depreciated: | | | | |
| Water and sewer distribution systems | 51,958,830 | 7,784,381 | - | 59,743,211 |
| Land improvements | 1,698,844 | 63,722 | - | 1,762,566 |
| Buildings and building improvements | 28,702,141 | 262,940 | - | 28,965,081 |
| Machinery and equipment | 1,790,591 | 7,300 | - | 1,797,891 |
| Subtotal | 84,150,406 | 8,118,343 | - | 92,268,749 |
| Accumulated depreciation: | | | | |
| Water and sewer distribution systems | 9,163,970 | 1,495,199 | - | 10,659,169 |
| Buildings and building improvements | 12,366,324 | 756,983 | - | 13,123,307 |
| Machinery and equipment | 1,489,803 | 151,650 | - | 1,641,453 |
| Subtotal | 23,020,097 | 2,403,832 | - | 25,423,929 |
| Net capital assets being depreciated | 61,130,309 | 5,714,511 | - | 66,844,820 |
| Net capital assets | \$ 70,283,070 | \$ 5,800,263 | \$ 1,264,055 | \$ 74,819,278 |

Capital asset activity for the City's component units was as follows:

| | Balance July 1, 2004 | Additions | Disposals and Adjustments | Balance June 30, 2005 |
|--|-------------------------|------------|------------------------------|--------------------------|
| Component Units | | | | |
| Capital assets not being depreciated - | | | | |
| Fine arts | \$ 95,500 | \$ - | \$ - | \$ 95,500 |
| Capital assets being depreciated: | | | | |
| Equipment | 1,762,298 | 394,682 | 61,697 | 2,095,283 |
| Books, periodicals, etc. | 7,462,159 | 406,636 | 115,942 | 7,752,853 |
| Subtotal | 9,224,457 | 801,318 | 177,639 | 9,848,136 |
| Less accumulated depreciation | 6,483,713 | 654,619 | 166,112 | 6,972,220 |
| Net capital assets being depreciated | 2,740,744 | 146,699 | 11,527 | 2,875,916 |
| Net capital assets | \$ 2,836,244 | \$ 146,699 | \$ 11,527 | \$ 2,971,416 |

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

| | |
|---|----------------|
| General government | \$ 140,900 |
| Public safety | 94,958 |
| Public works | 1,899,307 |
| Economic development | 2,046 |
| Recreation and culture | 83,784 |
| Internal Service Fund depreciation is charged to the various function based on their usage of the asset | <u>759,546</u> |

| | |
|-------------------------------|----------------------------|
| Total governmental activities | <u><u>\$ 2,980,541</u></u> |
|-------------------------------|----------------------------|

Business-type activities:

| | |
|---------------------------|---------------|
| Water and sewer | \$ 1,503,765 |
| Automobile parking system | 867,193 |
| Golf courses | <u>32,874</u> |

| | |
|--------------------------------|----------------------------|
| Total business-type activities | <u><u>\$ 2,403,832</u></u> |
|--------------------------------|----------------------------|

Construction Commitments - At year end, the City of Birmingham has active construction projects. The City's commitments with contractors are as follows:

| | <u>Spent to Date</u> | <u>Remaining Commitment</u> |
|---------------------------|----------------------------|---------------------------------|
| Street projects | \$ 833,562 | \$ 4,079,594 |
| Parking deck improvements | 433,421 | 27,827 |
| Building improvements | 97,259 | 101,251 |
| Sidewalks | 438,441 | 10,318 |
| Park renovations | 205,747 | 557,742 |
| Sewer improvements | 5,711,628 | 1,284,411 |
| Water system improvements | 2,072,103 | 1,003,321 |
| Other | <u>75,755</u> | <u>11,760</u> |
| Total | <u><u>\$ 9,867,916</u></u> | <u><u>\$ 7,076,222</u></u> |

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

| | Interest Rate Ranges | Principal Maturity Ranges | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------------|---------------------------------|----------------------|---------------------|------------------------|----------------------|------------------------|
| Governmental Activities | | | | | | | |
| General obligation bonds: | | | | | | | |
| 2002 Parks and Recreation Bonds: | | | | | | | |
| Amount of issue - \$15,700,000 | 2.0% - | \$200,000 - | | | | | |
| Maturing through 2025 | 5.00% | \$1,300,000 | \$ 15,500,000 | \$ - | \$ (200,000) | \$ 15,300,000 | \$ 300,000 |
| 2003 Refunding Bonds: | | | | | | | |
| Amount of issue - \$9,055,000 | 2.0% - | \$425,000 - | | | | | |
| Maturing through 2012 | 4.00% | \$1,500,000 | 5,130,000 | - | (325,000) | 4,805,000 | 425,000 |
| Other long-term obligations - | | | | | | | |
| Accumulated employee benefits | | | 1,227,756 | 125,066 | (10,726) | 1,342,096 | 771,457 |
| Total governmental activities | | | <u>\$ 21,857,756</u> | <u>\$ 125,066</u> | <u>\$ (535,726)</u> | <u>\$ 21,447,096</u> | <u>\$ 1,496,457</u> |
| Business-type Activities | | | | | | | |
| General obligation bonds: | | | | | | | |
| 2000 Sewer Improvement Bonds: | | | | | | | |
| Amount of issue - \$12,000,000 | 5.25% - | \$200,000 - | | | | | |
| Maturing through 2020 | 8.00% | \$1,200,000 | \$ 11,100,000 | \$ - | \$ (9,275,000) | \$ 1,825,000 | \$ 300,000 |
| 2004 Refunding Bonds | | | | | | | |
| Amount of issue - \$9,930,000 | 2.00% - | \$85,000 - | | | | | |
| Maturing through 2020 | 4.00% | \$1,155,000 | - | 9,930,000 | - | 9,930,000 | 85,000 |
| 2003 Refunding Bonds: | | | | | | | |
| Amount of issue - \$9,055,000 | 2.0% - | \$580,000 - | | | | | |
| Maturing through 2012 | 4.00% | \$1,500,000 | 3,925,000 | - | (1,125,000) | 2,800,000 | 1,075,000 |
| C.S.O. Obligations: | | | | | | | |
| Amount of issue - \$22,706,977 | | | | | | | |
| (Net of 1996 and 1999 | | | | | | | |
| defeasance) | 2% - | \$838,066 - | | | | | |
| Maturing through 2016 | 7.00% | \$1,694,906 | 17,952,923 | - | (1,073,395) | 16,879,528 | 1,091,068 |
| George W. Kuhn Drain Bonds: | | | | | | | |
| Amount of issue - \$5,672,532 | 2.5% - | \$42,654 - | | | | | |
| Maturing through 2024 | 6.00% | \$349,529 | 5,586,513 | - | (214,693) | 5,371,820 | 219,433 |
| North Arm Drain Bonds: | | | | | | | |
| Amount of issue - \$13,877,387 | 1.1% - | \$121,756 - | | | | | |
| Maturing through 2021 | 1.30% | \$174,693 | 2,612,516 | - | (127,123) | 2,485,393 | 130,383 |
| Total bonds and other contractual obligations | | | 41,176,952 | 9,930,000 | (11,815,211) | 39,291,741 | 2,900,884 |
| Other long-term obligations - | | | | | | | |
| Accumulated employee benefits | | | 27,848 | 3,693 | (557) | 30,984 | 16,719 |
| Total business-type activities | | | <u>\$ 41,204,800</u> | <u>\$ 9,933,693</u> | <u>\$ (11,815,768)</u> | <u>\$ 39,322,725</u> | <u>\$ 2,917,603</u> |

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

| | Governmental Activities | | | Business-type Activities | | |
|-----------|-------------------------|---------------------|----------------------|--------------------------|----------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2006 | \$ 725,000 | \$ 811,807 | \$ 1,536,807 | \$ 2,900,884 | \$ 1,388,301 | \$ 4,289,185 |
| 2007 | 900,000 | 791,494 | 1,691,494 | 3,024,272 | 1,290,800 | 4,315,072 |
| 2008 | 925,000 | 763,495 | 1,688,495 | 2,842,444 | 1,184,813 | 4,027,257 |
| 2009 | 980,000 | 729,896 | 1,709,896 | 2,170,969 | 1,089,498 | 3,260,467 |
| 2010 | 1,100,000 | 692,547 | 1,792,547 | 2,335,854 | 1,004,083 | 3,339,937 |
| 2011-2015 | 15,475,000 | 5,234,522 | 20,709,522 | 26,017,318 | 4,954,514 | 30,971,832 |
| Total | <u>\$ 20,105,000</u> | <u>\$ 9,023,761</u> | <u>\$ 29,128,761</u> | <u>\$ 39,291,741</u> | <u>\$ 10,912,009</u> | <u>\$ 50,203,750</u> |

Defeased Debt

During the current year, the City of Birmingham defeased bonds by issuing new bonds in the amount of \$9,930,000 with an average interest rate of 3.5 percent; the proceeds were used to advance refund \$9,025,000 of outstanding Oakland County Evergreen - Farmington Segment I & II bonds with an average interest rate of 5.7 percent. These new bonds were issued at a premium of \$67,381. In addition, there was \$139,290 of the City's Debt Service Funds that were used to fund this new issuance. The net proceeds of \$9,997,381 (after payment of approximately \$159,000 in underwriting fees, insurance, and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed. The advance funding reduced total debt service payments over the next 16 years by \$847,916, which represents an economic gain of approximately \$622,950.

Component Units - Long-term debt of the component units consists of an accrual for compensated absence.

Note 7 - Restricted Assets

The balance of the restricted assets in the governmental activities is approximately \$4,810,400, which represents unspent bond proceeds that are restricted for facility and park improvement projects. In addition, business-type restricted assets of approximately \$165,000 are restricted for sewer improvement projects.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Designated Fund Balance

Fund balances have been designated as follows:

Capital Projects Fund:

| | |
|-----------------------------|---------------------|
| Woodward median | \$ 1,857,668 |
| Downtown 2016 plan | 622,948 |
| Downtown streetscape | 302,868 |
| Downtown streetlights | 102,491 |
| Chester Street structure | 65,100 |
| EPS property maintenance | 40,817 |
| City Hall and grounds | 23,352 |
| Fire station training tower | 11,346 |
| Park improvements | 112,306 |
| Ice arena renovation | 33,291 |
| Total | <u>\$ 3,172,187</u> |

Note 9 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | <u>Unavailable</u> | <u>Unearned</u> |
|---|---------------------|------------------|
| Monies received for subsequent year's operations | \$ - | \$ 62,368 |
| Special assessments and delinquent property taxes | <u>1,799,980</u> | <u>-</u> |
| Total deferred revenue | <u>\$ 1,799,980</u> | <u>\$ 62,368</u> |

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City is insured under the Michigan Municipal League for workers' compensation claims, general liability, and property loss and is self-insured for other employee and retiree health and dental claims.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 10 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City estimates the liability for general liability and employee and retiree health and dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Risk Management Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

| | 2005 | 2004 |
|---|--------------------|--------------------|
| Unpaid claims - Beginning of year | \$ 124,943 | \$ 466,342 |
| Incurred claims - Including claims incurred but not reported | 1,902,390 | 1,996,931 |
| Claim payments | <u>(1,790,266)</u> | <u>(2,338,330)</u> |
| Unpaid claims - End of year | <u>\$ 237,067</u> | <u>\$ 124,943</u> |

Note 11 - Defined Benefit Pension Plan

Plan Description - The City of Birmingham Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Birmingham Employees' Retirement System Pension Board. This plan covers all full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the City of Birmingham, 151 Martin, P.O. Box 3001, Birmingham, MI 48009.

Funding Policy - The City Commission is responsible for establishing and amending plan provisions, pursuant to negotiation with the City's competitive bargaining units.

Currently, a contribution from the employees of 3 percent to 4 percent of their covered salary is required. The funding policy provides for periodic employer contributions at actuarially determined rates. Only employee contributions were required for the year ended June 30, 2005.

City of Birmingham, Michigan

Notes to Financial Statements June 30, 2005

Note 11 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the year ended June 30, 2005, the City had no required pension contributions. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4 percent per year, (c) additional projected salary increases ranging from 0.0 percent to 3.8 percent per year depending on age, attributable to seniority/merit, and (d) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The overfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 15 years.

Reserves

As of June 30, 2005, the plan's legally required reserves has been fully funded as follows:

| | |
|--|--------------|
| Reserve for employees' contributions | \$ 7,889,642 |
| Reserve for retired benefit payments | 35,057,359 |
| Reserve for deferred retirement option plan benefit payments | 497,389 |

Three-year trend information as of June 30 follows:

| | Fiscal Year Ended June 30 | | |
|-------------------------------|---------------------------|------|------|
| | 2003 | 2004 | 2005 |
| Employees' Retirement System: | | | |
| Annual pension costs (APC) | \$ - | \$ - | \$ - |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |

Note 12 - Postemployment Benefits

In addition to providing pension benefits, the City provides health care benefits to certain full-time employees, based on age and years of service, upon retirement in accordance with labor contracts. Currently, 134 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with some contributions required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums and claim administrator reimbursements become due; during the year, this amounted to approximately \$1,327,000.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 13 - Joint Ventures

Birmingham Area Cablecasting Board

The City is a member of the Birmingham Area Cablecasting Board, which provides cable program coordinating services to the residents of Birmingham, Beverly Hills, and Franklin Village. The City receives quarterly checks from Comcast, which consist of revenue related to franchise and use fees. The City then distributes a fixed percentage of the amounts received to the Village of Beverly Hills for administrative services. The City is unaware of any additional benefit or detriment upon dissolution of this joint venture. The City's equity interest in the joint venture is insignificant. Complete financial statements for the Birmingham Area Cablecasting Board can be obtained from the administrative offices at 30400 Telegraph Road, Suite 328, Birmingham, MI 48010.

Note 13 - Joint Ventures (Continued)

Southeastern Oakland County Sewage Disposal System

The City is a member of the Southeastern Oakland County Sewage Disposal System, which consists of 13 municipalities in Oakland County and provides sewage disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2005, the City expensed approximately \$894,000 of payments made to the Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Sewage Disposal System's operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland County Sewage Disposal System can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Southeastern Oakland County Water Authority

The City is a member of the Southeastern Oakland County Water Authority, which provides a water supply system serving 11 member municipalities in Oakland County. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2005, the City expensed approximately \$1,226,000 of payments made to the Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Water Authority's operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. The Southeastern Oakland County Water Authority has two debt issuances totaling approximately \$8,550,000, of which the City has guaranteed approximately \$615,000 at June 30, 2005. Complete financial statements for the Southeastern Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Note 13 - Joint Ventures (Continued)

Southeastern Oakland County Resource Recovery Authority

The City is a member of the Southeastern Oakland County Resource Recovery Authority, which consists of 14 municipalities in Oakland County and provides refuse disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2005, the City expensed approximately \$466,000 of payments made to the Authority. The City has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Resource Recovery Authority's operations are financially independent of the City. The City is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

48th Judicial District Court

The City is a participant with Bloomfield Township, the Charter Township of West Bloomfield, and the City of Bloomfield Hills in the operations of the 48th Judicial District Court (the "Court"). The City advances its allocated share of Court expenditures and receives a share of the Court revenue based on relative caseload levels. The City's share of Court expenditures amounted to \$932,765 and its share of Court revenue amounted to \$913,170 for the Court's year ended December 31, 2004. Complete audited financial statements for the Court can be obtained from the Court's administrative offices at 4280 Telegraph Road in Bloomfield Township. The City's equity interest at June 30, 2005 is \$120,654.

Required Supplemental Information

City of Birmingham, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget Favorable (Unfavorable) |
|--|---------------------|---------------------|---------------------|---|
| Revenue | | | | |
| Property taxes | \$ 16,808,170 | \$ 16,785,670 | \$ 16,756,534 | \$ (29,136) |
| Licenses and permits | 1,687,530 | 2,101,530 | 2,325,043 | 223,513 |
| Intergovernmental revenue | 1,794,960 | 1,937,523 | 1,935,780 | (1,743) |
| Charges for services | 2,438,870 | 1,988,870 | 2,130,505 | 141,635 |
| Fines and forfeitures | 1,324,800 | 1,434,800 | 1,611,650 | 176,850 |
| Interest and rent | 245,050 | 345,050 | 253,972 | (91,078) |
| Other | 340,180 | 145,180 | 225,661 | 80,481 |
| Transfers from other funds | 64,370 | 64,370 | 52,194 | (12,176) |
| Total revenue | 24,703,930 | 24,802,993 | 25,291,339 | 488,346 |
| Expenditures | | | | |
| General government | 5,625,350 | 5,074,557 | 4,975,125 | 99,432 |
| Public safety | 9,301,760 | 9,744,311 | 9,671,124 | 73,187 |
| Community development | 1,792,660 | 1,768,402 | 1,588,888 | 179,514 |
| Engineering and public services | 3,709,250 | 3,612,778 | 3,266,816 | 345,962 |
| Contingency | 177,000 | - | - | - |
| Transfers to other funds | 4,139,010 | 4,652,945 | 4,732,007 | (79,062) |
| Total expenditures | 24,745,030 | 24,852,993 | 24,233,960 | 619,033 |
| Excess of Revenue Over (Under) | | | | |
| Expenditures | (41,100) | (50,000) | 1,057,379 | 1,107,379 |
| Fund Balances - Beginning of year | 6,287,392 | 6,287,392 | 6,287,392 | - |
| Fund Balances - End of year | <u>\$ 6,246,292</u> | <u>\$ 6,237,392</u> | <u>\$ 7,344,771</u> | <u>\$ 1,107,379</u> |

City of Birmingham, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2005

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget Favorable (Unfavorable) |
|---|---------------------|--------------------|---------------------|--|
| Revenue | | | | |
| Special assessments | \$ 80,330 | \$ 80,330 | \$ 143,864 | \$ 63,534 |
| Intergovernmental revenue | 1,928,300 | 1,928,300 | 1,819,581 | (108,719) |
| Other revenue | 60,000 | 60,000 | - | (60,000) |
| Interest and rent | 48,450 | 48,450 | 40,004 | (8,446) |
| Transfers from other funds | 1,500,000 | 1,858,000 | 1,858,000 | - |
| Total revenue | 3,617,080 | 3,975,080 | 3,861,449 | (113,631) |
| Expenditures | | | | |
| Maintenance of streets and bridges | 955,910 | 1,730,661 | 355,963 | 1,374,698 |
| Street cleaning | 202,450 | 216,405 | 174,130 | 42,275 |
| Street trees | 216,510 | 276,510 | 269,888 | 6,622 |
| Traffic controls and engineering | 429,530 | 516,099 | 323,394 | 192,705 |
| Snow and ice removal | 227,990 | 261,990 | 263,015 | (1,025) |
| Administrative | 15,320 | 15,320 | 14,970 | 350 |
| Transfers to other funds | 198,030 | 198,030 | 198,187 | (157) |
| Capital outlay - Engineering and construction of roads and bridges | 2,093,390 | 2,558,139 | 540,566 | 2,017,573 |
| Total expenditures | 4,339,130 | 5,773,154 | 2,140,113 | 3,633,041 |
| Excess of Revenue Over (Under) Expenditures | (722,050) | (1,798,074) | 1,721,336 | 3,519,410 |
| Fund Balances - Beginning of year | 2,512,269 | 2,512,269 | 2,512,269 | - |
| Fund Balances - End of year | \$ 1,790,219 | \$ 714,195 | \$ 4,233,605 | \$ 3,519,410 |

City of Birmingham, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended June 30, 2005

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget Favorable (Unfavorable) |
|---|--------------------------|--------------------------|----------------------------|--|
| Revenue | | | | |
| Intergovernmental revenue | \$ 344,300 | \$ 344,300 | \$ 344,921 | \$ 621 |
| Contributions from other funds | 1,796,780 | 1,952,715 | 1,952,872 | 157 |
| Interest and rent | 42,960 | 42,960 | 27,175 | (15,785) |
| Special assessments | 245,330 | 245,330 | 407,229 | 161,899 |
| Other | <u>1,000</u> | <u>1,000</u> | <u>3,494</u> | <u>2,494</u> |
| Total revenue | 2,430,370 | 2,586,305 | 2,735,691 | 149,386 |
| Expenditures | | | | |
| Maintenance of streets and bridges | 373,170 | 388,336 | 223,864 | 164,472 |
| Street cleaning | 214,050 | 220,758 | 199,379 | 21,379 |
| Street trees | 526,960 | 688,210 | 709,363 | (21,153) |
| Traffic controls and engineering | 80,090 | 80,090 | 77,541 | 2,549 |
| Snow and ice removal | 108,040 | 108,040 | 138,691 | (30,651) |
| Administrative | 25,090 | 25,090 | 24,740 | 350 |
| Capital outlay - Engineering and construction of roads and bridges | <u>1,023,270</u> | <u>1,226,896</u> | <u>662,572</u> | <u>564,324</u> |
| Total expenditures | <u>2,350,670</u> | <u>2,737,420</u> | <u>2,036,150</u> | <u>701,270</u> |
| Excess of Revenue Over (Under) Expenditures | 79,700 | (151,115) | 699,541 | (551,884) |
| Fund Balances - Beginning of year | <u>757,531</u> | <u>757,531</u> | <u>757,531</u> | <u>-</u> |
| Fund Balances - End of year | <u>\$ 837,231</u> | <u>\$ 606,416</u> | <u>\$ 1,457,072</u> | <u>\$ (551,884)</u> |

City of Birmingham, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Capital Projects Fund Year Ended June 30, 2005

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget Favorable (Unfavorable) |
|--|---------------------|---------------------|---------------------|--|
| Revenues | | | | |
| Special assessments | \$ 14,800 | \$ 14,800 | \$ 43,323 | \$ 28,523 |
| Interest and other | 232,010 | 232,010 | 172,010 | (60,000) |
| State sources | - | 18,130 | 18,130 | - |
| Transfers from other funds | 200,000 | 200,000 | 200,000 | - |
| Total revenues | 446,810 | 464,940 | 433,463 | (31,477) |
| Expenditures | 1,319,130 | 3,066,781 | 1,914,057 | 1,152,724 |
| Excess of Expenditures Over Revenue | (872,320) | (2,601,841) | (1,480,594) | 1,121,247 |
| Fund Balances - Beginning of year | 10,003,311 | 10,003,311 | 10,003,311 | - |
| Fund Balances - End of year | <u>\$ 9,130,991</u> | <u>\$ 7,401,470</u> | <u>\$ 8,522,717</u> | <u>\$ 1,121,247</u> |

City of Birmingham, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2005

The schedule of funding progress is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Overfunded AAL (UAAL) (a-b) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | Overfunded AAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|-----------------------------------|---------------------------------------|---------------------------|---|
| 6/30/99 | \$ 85,246,634 | \$ 49,913,637 | \$ 35,332,997 | 170.8 | \$ 9,236,258 | 382.5 |
| 6/30/00 | 93,811,587 | 53,812,167 | 39,999,420 | 174.3 | 9,867,703 | 405.4 |
| 6/30/01 | 97,938,389 | 56,216,921 | 41,721,468 | 174.2 | 9,741,497 | 428.3 |
| 6/30/02 | 89,780,104 | 64,898,186 | 24,881,918 | 138.3 | 10,877,102 | 228.8 |
| 6/30/03 | 89,339,691 | 68,301,496 | 21,038,195 | 130.8 | 10,975,158 | 191.7 |
| 6/30/04 | 89,606,401 | 74,106,298 | 15,500,103 | 120.9 | 11,553,759 | 134.2 |
| 6/30/05 | * | * | * | * | * | * |

*Information not available

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution* | Percentage Contributed |
|-------------------|-----------------------------|----------------------------------|---------------------------|
| 06/30/99 | 06/30/97 | - | 100.0 |
| 06/30/00 | 06/30/98 | - | 100.0 |
| 06/30/01 | 06/30/99 | - | 100.0 |
| 06/30/02 | 06/30/00 | - | 100.0 |
| 06/30/03 | 06/30/01 | - | 100.0 |
| 06/30/04 | 06/30/03 | - | 100.0 |
| 06/30/05 | 06/30/04 | - | 100.0 |

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, the latest actuarial valuation date, follows:

Employees' Retirement System

| | |
|--------------------------------|---------------------------------|
| Actuarial cost method | Entry age actuarial cost method |
| Amortization method | Level percent of payroll |
| Remaining amortization period | 15 years |
| Asset valuation method | 4-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases: | |
| General | 4.0%-7.8% |
| Police and fire | 4.0%-7.0% |
| Assumed rate of payroll growth | 4.0% |
| Cost of living adjustments | None |

According to actuarial requirements, there have been no required employer contributions to the plan for the last 13 years.

City of Birmingham, Michigan

Note to Required Supplemental Information June 30, 2005

Note - Compliance and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds, except that fund balance appropriations and transfers are budgeted as either revenue or expenditures to balance the budget. All annual appropriations lapse at fiscal year end.

The annual budget is prepared by the City management and adopted by the city commission. The City adopts its General Fund budget and Special Revenue Fund budget by budgetary center (major activity or function), and by fund type for Debt Service Funds. This is in accordance with the State's legal requirement and is the level of classification detail at which, by law, expenditures may not exceed appropriations. The following process is required to amend the City's budget:

- a. The city manager is authorized to transfer budgeted amounts within budgetary centers. This is accomplished by the use of an internal budget adjustment form, initialed and approved by the requesting department head, reviewed and approved by the finance director, and then approved by the city manager. Any revisions that alter the total expenditures of any budgetary center must be approved by the City Commission.
- b. At any meeting after the passage of the appropriation resolution, the city commission may amend such resolution so as to authorize the transfer of unused balances appropriated for one purpose to another purpose. A formal budget amendment request is prepared by the finance director and submitted to the city manager for approval, prior to submission to the city commission.

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, Debt Service, and Capital Projects Funds are reported as originally adopted or as amended by the city commission. Individual amendments were not material in relation to the original appropriations that were adopted.

City of Birmingham, Michigan

Note to Required Supplemental Information June 30, 2005

Note - Compliance and Accountability (Continued)

Unexpended appropriations lapse at year end except for those approved for carryforward by the City Commission. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary procedures. Material encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances during the year.

Other Supplemental Information

City of Birmingham, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

| | Nonmajor Special Revenue Funds | | | | Nonmajor Debt Service Funds | | Total Nonmajor Governmental Funds |
|--------------------------------------|--------------------------------|-----------------------------------|--------------------------|--------------------------|-----------------------------|---------------------------|-----------------------------------|
| | Solid Waste Disposal | Community Development Block Grant | Law and Drug Forfeitures | 425 Economic Development | 2003 Refunding | 2002 Parks and Recreation | |
| Assets | | | | | | | |
| Cash and investments | \$ 1,046,289 | \$ - | \$ 132,440 | \$ 20,200 | \$ 108,357 | \$ 1,101 | \$ 1,308,387 |
| Receivables - Net - Customers | 535 | - | - | - | - | - | 535 |
| Due from other governmental units | - | 5,554 | - | - | - | - | 5,554 |
| Total assets | <u>\$ 1,046,824</u> | <u>\$ 5,554</u> | <u>\$ 132,440</u> | <u>\$ 20,200</u> | <u>\$ 108,357</u> | <u>\$ 1,101</u> | <u>\$ 1,314,476</u> |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ 136,996 | \$ 5,554 | \$ - | \$ - | \$ - | \$ - | \$ 142,550 |
| Accrued and other liabilities | 2,410 | - | - | - | - | - | 2,410 |
| Total liabilities | 139,406 | 5,554 | - | - | - | - | 144,960 |
| Fund Balances | | | | | | | |
| Reserved for: | | | | | | | |
| Law and drug enforcement programs | - | - | 132,440 | - | - | - | 132,440 |
| Solid waste | 907,418 | - | - | - | - | - | 907,418 |
| Debt service | - | - | - | - | 108,357 | 1,101 | 109,458 |
| Other | - | - | - | 20,200 | - | - | 20,200 |
| Total fund balances | <u>907,418</u> | <u>-</u> | <u>132,440</u> | <u>20,200</u> | <u>108,357</u> | <u>1,101</u> | <u>1,169,516</u> |
| Total liabilities and fund balances | <u>\$ 1,046,824</u> | <u>\$ 5,554</u> | <u>\$ 132,440</u> | <u>\$ 20,200</u> | <u>\$ 108,357</u> | <u>\$ 1,101</u> | <u>\$ 1,314,476</u> |

City of Birmingham, Michigan

| | Nonmajor Special Revenue Funds | | | |
|---|--------------------------------|-----------------------------------|------------------------------|--------------------------|
| | Solid Waste Disposal | Community Development Block Grant | Law and Drug Forfeiture Fund | 425 Economic Development |
| Revenues | | | | |
| Property taxes | \$ 1,486,925 | \$ - | \$ - | \$ 9,948 |
| Federal grants | - | 43,922 | 90,678 | - |
| Charges for services | 36,662 | - | - | - |
| Use of money and property | 20,786 | - | 1,728 | 282 |
| Total revenues | 1,544,373 | 43,922 | 92,406 | 10,230 |
| Expenditures | | | | |
| Current: | | | | |
| Public safety | - | - | 80,799 | - |
| Solid waste | 1,494,526 | - | - | - |
| Community development | - | 43,922 | - | - |
| Debt service | - | - | - | - |
| Total expenditures | 1,494,526 | 43,922 | 80,799 | - |
| Excess of Revenues Over (Under) Expenditures | 49,847 | - | 11,607 | 10,230 |
| Fund Balances - Beginning of year | 857,571 | - | 120,833 | 9,970 |
| Fund Balances - End of year | <u>\$ 907,418</u> | <u>\$ -</u> | <u>\$ 132,440</u> | <u>\$ 20,200</u> |

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

| Nonmajor Debt Service Funds | | |
|--------------------------------|---------------------------------|---|
| 2003 Refunding | 2002 Parks and Recreation | Total Nonmajor Governmental Funds |
| \$ 488,174 | \$ 857,519 | \$ 2,842,566 |
| - | - | 134,600 |
| - | - | 36,662 |
| <u>2,254</u> | <u>2,626</u> | <u>27,676</u> |
| 490,428 | 860,145 | 3,041,504 |
| - | - | 80,799 |
| - | - | 1,494,526 |
| - | - | 43,922 |
| <u>490,150</u> | <u>860,675</u> | <u>1,350,825</u> |
| <u>490,150</u> | <u>860,675</u> | <u>2,970,072</u> |
| 278 | (530) | 71,432 |
| <u>108,079</u> | <u>1,631</u> | <u>1,098,084</u> |
| <u>\$ 108,357</u> | <u>\$ 1,101</u> | <u>\$ 1,169,516</u> |

City of Birmingham, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds Year Ended June 30, 2005

Special Revenue Fund - Solid Waste

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget Favorable (Unfavorable) |
|---|--------------------|-------------------|-------------------|--|
| Revenues | | | | |
| Taxes | \$ 1,492,930 | \$ 1,492,930 | \$ 1,486,925 | \$ (6,005) |
| Charges for services | 42,170 | 42,170 | 35,282 | (6,888) |
| Interest | 21,400 | 21,400 | 20,786 | (614) |
| Other | 500 | 500 | 1,380 | 880 |
| Total revenues | 1,557,000 | 1,557,000 | 1,544,373 | (12,627) |
| Expenditures | | | | |
| Refuse pickup | 729,070 | 724,070 | 781,374 | (57,304) |
| Incinerator | 565,000 | 550,000 | 466,337 | 83,663 |
| Equipment rental | 116,000 | 101,000 | 84,593 | 16,407 |
| Salaries | 132,980 | 132,980 | 124,175 | 8,805 |
| Miscellaneous | 13,950 | 48,950 | 38,047 | 10,903 |
| Total expenditures | 1,557,000 | 1,557,000 | 1,494,526 | 62,474 |
| Excess of Revenues Over (Under) Expenditures | - | - | 49,847 | 49,847 |
| Fund Balances - Beginning of year | 857,571 | 857,571 | 857,571 | - |
| Fund Balances - End of year | <u>\$ 857,571</u> | <u>\$ 857,571</u> | <u>\$ 907,418</u> | <u>\$ 49,847</u> |

City of Birmingham, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue Fund - Community Development Block Grant

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget Favorable (Unfavorable) |
|---|--------------------|--------------------|--------------------|--|
| Revenues - Intergovernmental | \$ 42,210 | \$ 47,710 | \$ 43,922 | \$ (3,788) |
| Expenditures - Community development | <u>42,210</u> | <u>47,710</u> | <u>43,922</u> | <u>3,788</u> |
| Excess of Revenues Over Expenses | - | - | - | - |
| Fund Balances - Beginning of year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balances - End of year | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

City of Birmingham, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue Fund - Law and Drug Forfeiture Fund

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget Favorable (Unfavorable) |
|---|--------------------|-------------------|-------------------|--|
| Revenues | | | | |
| Fines and forfeitures | \$ 22,700 | 22,700 | \$ 90,678 | \$ 67,978 |
| Interest and other | 2,130 | 1,130 | 1,728 | 598 |
| Total revenues | 24,830 | 23,830 | 92,406 | 68,576 |
| Expenditures | | | | |
| Public safety | 7,500 | 74,524 | 80,799 | (6,275) |
| Capital outlay | 40,750 | - | - | - |
| Total expenditures | 48,250 | 74,524 | 80,799 | (6,275) |
| Excess of Revenues Over (Under) Expenditures | (23,420) | (50,694) | 11,607 | 62,301 |
| Fund Balances - Beginning of year | 120,833 | 120,833 | 120,833 | - |
| Fund Balances - End of year | <u>\$ 97,413</u> | <u>\$ 70,139</u> | <u>\$ 132,440</u> | <u>\$ 62,301</u> |

City of Birmingham, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Special Revenue Fund - 425 Economic Development Fund

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget Favorable (Unfavorable) |
|---|--------------------|-------------------|------------------|--|
| Revenues | | | | |
| Taxes | \$ 12,440 | \$ 12,440 | \$ 9,948 | \$ (2,492) |
| Interest and other | - | - | 282 | 282 |
| Total revenues | 12,440 | 12,440 | 10,230 | (2,210) |
| Expenditures | - | - | - | - |
| Excess of Revenues Over Expenditures | 12,440 | 12,440 | 10,230 | (2,210) |
| Fund Balances - Beginning of year | 9,970 | 9,970 | 9,970 | - |
| Fund Balances - End of year | <u>\$ 22,410</u> | <u>\$ 22,410</u> | <u>\$ 20,200</u> | <u>\$ (2,210)</u> |

City of Birmingham, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Debt Service Funds

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget Favorable (Unfavorable) |
|---|--------------------------|--------------------------|--------------------------|--|
| Revenues | | | | |
| Taxes | \$ 1,351,220 | \$ 1,351,220 | \$ 1,345,693 | \$ (5,527) |
| Interest and other | <u>3,890</u> | <u>3,890</u> | <u>4,880</u> | <u>990</u> |
| Total revenues | 1,355,110 | 1,355,110 | 1,350,573 | (4,537) |
| Expenditures | <u>1,351,220</u> | <u>1,351,220</u> | <u>1,350,825</u> | <u>395</u> |
| Excess of Revenues Over (Under) Expenditures | 3,890 | 3,890 | (252) | (4,142) |
| Fund Balances - Beginning of year | <u>109,710</u> | <u>109,710</u> | <u>109,710</u> | <u>-</u> |
| Fund Balances - End of year | <u><u>\$ 113,600</u></u> | <u><u>\$ 113,600</u></u> | <u><u>\$ 109,458</u></u> | <u><u>\$ (4,142)</u></u> |

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2005

| | Equipment | Personal Services | Risk Management | Total |
|--|---------------------|----------------------|---------------------|----------------------|
| Assets | | | | |
| Cash and investments | \$ 5,078,544 | \$ 673,852 | \$ 3,055,832 | \$ 8,808,228 |
| Receivables | 925 | - | - | 925 |
| Inventory | 68 | - | - | 68 |
| Prepaid costs and other assets | - | - | 93,953 | 93,953 |
| Restricted assets | - | - | 134,915 | 134,915 |
| Capital assets | <u>2,479,901</u> | <u>-</u> | <u>-</u> | <u>2,479,901</u> |
| Total assets | 7,559,438 | 673,852 | 3,284,700 | 11,517,990 |
| Liabilities | | | | |
| Accounts payable | 53,863 | - | 99,794 | 153,657 |
| Accrued liabilities | 45,529 | - | 1,913 | 47,442 |
| Current portion of long-term debt and compensated absences | 30,185 | 314,609 | - | 344,794 |
| Provision for uninsured losses and liabilities | <u>-</u> | <u>-</u> | <u>237,067</u> | <u>237,067</u> |
| Total liabilities | <u>129,577</u> | <u>314,609</u> | <u>338,774</u> | <u>782,960</u> |
| Net Assets | | | | |
| Investment in capital assets - Net of related debt | 2,479,901 | - | - | 2,479,901 |
| Unrestricted | <u>4,949,960</u> | <u>359,243</u> | <u>2,945,926</u> | <u>8,255,129</u> |
| Total net assets | <u>\$ 7,429,861</u> | <u>\$ 359,243</u> | <u>\$ 2,945,926</u> | <u>\$ 10,735,030</u> |

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Revenues, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2005

| | Equipment | Personal Services | Risk Management | Total |
|--|---------------------|----------------------|---------------------|----------------------|
| Operating Revenues - Charges to other funds | \$ 2,134,036 | \$ - | \$ 3,358,214 | \$ 5,492,250 |
| Operating Expenses | | | | |
| General and administrative | - | 19,344 | 2,533,771 | 2,553,115 |
| Supplies and other operating expenses | 1,260,269 | - | - | 1,260,269 |
| Depreciation | 759,545 | - | - | 759,545 |
| Total operating expenses | 2,019,814 | 19,344 | 2,533,771 | 4,572,929 |
| Operating Income (Loss) | 114,222 | (19,344) | 824,443 | 919,321 |
| Nonoperating Income (Expense) | | | | |
| Interest earned | 72,221 | 9,971 | 33,653 | 115,845 |
| Loss on sale of capital assets | (141,085) | - | - | (141,085) |
| Contributions | 37,707 | - | - | 37,707 |
| Net nonoperating income (expense) | (31,157) | 9,971 | 33,653 | 12,467 |
| Changes in Net Assets | 83,065 | (9,373) | 858,096 | 931,788 |
| Net Assets - Beginning of year | 7,346,796 | 368,616 | 2,087,830 | 9,803,242 |
| Net Assets - End of year | <u>\$ 7,429,861</u> | <u>\$ 359,243</u> | <u>\$ 2,945,926</u> | <u>\$ 10,735,030</u> |

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2005

| | Equipment | Personal Services | Risk Management | Total |
|--|---------------------|----------------------|---------------------|---------------------|
| Cash Flows from Operating Activities | | | | |
| Receipts from customers | \$ 2,134,033 | \$ - | \$ 3,358,216 | \$ 5,492,249 |
| Payments to suppliers | (544,125) | - | (2,320,976) | (2,865,101) |
| Payments to employees | (693,244) | (19,546) | - | (712,790) |
| Net cash provided by (used in) operating activities | 896,664 | (19,546) | 1,037,240 | 1,914,358 |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Contributed capital | 37,707 | - | - | 37,707 |
| Purchase of capital assets | (718,114) | - | - | (718,114) |
| Proceeds from sale of capital assets | 36,166 | - | - | 36,166 |
| Net cash used in capital and related financing activities | (644,241) | - | - | (644,241) |
| Cash Flows from Investing Activities - Interest received on investments | 72,218 | 9,971 | 33,652 | 115,841 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 324,641 | (9,575) | 1,070,892 | 1,385,958 |
| Cash and Cash Equivalents - Beginning of year | 4,753,903 | 683,427 | 2,119,855 | 7,557,185 |
| Cash and Cash Equivalents - End of year | <u>\$ 5,078,544</u> | <u>\$ 673,852</u> | <u>\$ 3,190,747</u> | <u>\$ 8,943,143</u> |
| Balance Sheet Classification of Cash and Cash Equivalents | | | | |
| Cash and investments | \$ 5,078,544 | \$ 673,852 | \$ 3,055,832 | \$ 8,808,228 |
| Restricted investments | - | - | 134,915 | 134,915 |
| Total cash and cash equivalents | <u>\$ 5,078,544</u> | <u>\$ 673,852</u> | <u>\$ 3,190,747</u> | <u>\$ 8,943,143</u> |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | | |
| Operating income (loss) | \$ 114,222 | \$ (19,344) | \$ 824,443 | \$ 919,321 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Depreciation and amortization | 759,545 | - | - | 759,545 |
| Changes in assets and liabilities: | | | | |
| Other assets | - | - | 18,773 | 18,773 |
| Accounts payable | 14,594 | - | 81,285 | 95,879 |
| Accrued and other liabilities | 8,303 | (202) | 112,739 | 120,840 |
| Net cash provided by (used in) operating activities | <u>\$ 896,664</u> | <u>\$ (19,546)</u> | <u>\$ 1,037,240</u> | <u>\$ 1,914,358</u> |

Noncash Investing, Capital, and Related Financing Activities - During the year, the General Fund and Capital Projects Fund paid \$37,707 for equipment and contributed it to the Equipment Fund.

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2005

| | Pension Trust Fund | Retiree Health Care | Total |
|--|-----------------------|------------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 2,197,408 | \$ 313,179 | \$ 2,510,587 |
| Investments: | | | |
| U.S. government securities | 9,891,904 | 1,368,472 | 11,260,376 |
| Stocks | 62,739,461 | 6,799,655 | 69,539,116 |
| Bonds | 15,371,526 | 1,628,209 | 16,999,735 |
| Receivables - Accrued interest | 343,893 | 39,822 | 383,715 |
| Other assets | - | 15,678 | 15,678 |
| Total assets | 90,544,192 | 10,165,015 | 100,709,207 |
| Liabilities | | | |
| Accounts payable | - | 9,011 | 9,011 |
| Accrued and other | 168,394 | 108,066 | 276,460 |
| Total liabilities | 168,394 | 117,077 | 285,471 |
| Net Assets - Held in trust for pension and other employee benefits | <u>\$ 90,375,798</u> | <u>\$ 10,047,938</u> | <u>\$ 100,423,736</u> |

City of Birmingham, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2005

| | Pension Trust Fund | Retiree Health Care | Total |
|--|-----------------------|------------------------|-----------------------|
| Additions | | | |
| Investment income: | | | |
| Interest and dividends | \$ 2,293,500 | \$ 252,065 | \$ 2,545,565 |
| Net increase in fair value of investments | 4,424,112 | 456,403 | 4,880,515 |
| Investment expenses | (497,848) | (57,909) | (555,757) |
| Total investment income | 6,219,764 | 650,559 | 6,870,323 |
| Contributions - Employees and employer | 415,039 | 1,998,510 | 2,413,549 |
| Other revenue | 180,971 | 6,332 | 187,303 |
| Total additions - Net of investment income | 6,815,774 | 2,655,401 | 9,471,175 |
| Deductions | | | |
| Benefit payments | 2,935,678 | 1,326,933 | 4,262,611 |
| Refunds of contributions | 267,850 | 8,225 | 276,075 |
| Administrative expenses | 234,428 | 14,360 | 248,788 |
| Total deductions | 3,437,956 | 1,349,518 | 4,787,474 |
| Net Increase in Net Assets Held in Trust for Pension Benefits | 3,377,818 | 1,305,883 | 4,683,701 |
| Net Assets Held in Trust for Pension Benefits | | | |
| Beginning of year | 86,997,980 | 8,742,055 | 95,740,035 |
| End of year | <u>\$ 90,375,798</u> | <u>\$ 10,047,938</u> | <u>\$ 100,423,736</u> |

City of Birmingham, Michigan

Fiduciary Funds Statement of Changes in Assets and Liabilities Agency Fund Year Ended June 30, 2005

| | Balance July 1, 2004 | Additions | Deductions | Balance June 30, 2005 |
|----------------------------------|----------------------------|------------------------------|------------------------------|-----------------------------|
| Assets | | | | |
| Cash and investments | \$ 1,767,073 | \$ 84,273,914 | \$ 84,223,828 | \$ 1,817,159 |
| Receivables - Accrued interest | 4,101 | - | - | 4,101 |
| Due from other funds | <u>85,724</u> | <u>81,362</u> | <u>85,724</u> | <u>81,362</u> |
| Total assets | <u>\$ 1,856,898</u> | <u>\$ 84,355,276</u> | <u>\$ 84,309,552</u> | <u>\$ 1,902,622</u> |
| Liabilities | | | | |
| Accounts payable | \$ 39,463 | \$ 2,963,217 | \$ 2,895,023 | \$ 107,657 |
| Accrued liabilities and deposits | <u>1,817,435</u> | <u>137,099,005</u> | <u>137,121,475</u> | <u>1,794,965</u> |
| Total liabilities | <u>\$ 1,856,898</u> | <u>\$ 140,062,222</u> | <u>\$ 140,016,498</u> | <u>\$ 1,902,622</u> |

Statistical Section

City of Birmingham, Michigan

| Fiscal Year | General | | Public | |
|--------------------------------|--------------|---------|--------------|---------|
| | Government | Percent | Safety | Percent |
| 1995-1996 | \$ 3,573,940 | 17.6 | \$ 6,258,554 | 30.9 |
| 1996-1997 (2) | 3,233,526 | 14.3 | 6,557,207 | 29.1 |
| 1997-1998 | 3,299,170 | 15.6 | 6,687,762 | 31.5 |
| 1998-1999 | 4,026,468 | 17.2 | 7,016,085 | 30.0 |
| 1999-2000 | 3,956,430 | 16.4 | 7,475,104 | 30.9 |
| 2000-2001 | 4,106,070 | 14.8 | 7,917,513 | 28.5 |
| 2001-2002 | 4,256,477 | 11.2 | 8,184,850 | 21.6 |
| 2002-2003 | 4,462,205 | 12.1 | 8,684,771 | 23.6 |
| 2003-2004 | 4,781,522 | 16.5 | 8,999,008 | 31.1 |
| 2004-2005 | 4,975,125 | 17.0 | 9,751,923 | 33.3 |
| Percentage increase (decrease) | | | | |
| from 2003-2004 to 2004-2005 | | 4.0% | 8.4% | |

- (1) This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund through 2001-2002. In 2002-2003, the Expendable Trust Fund was eliminated.
- (2) Starting in 1997, the general government expenditures for the year ended June 30, 1998 decreased due to the retirement system costs reclassified from the General Fund and charged to the Pension Trust Fund.

**General Governmental Expenditures by Function
Last Ten Fiscal Years (1)**

| Solid Waste | | | Highways and Streets | | Community Development | | | |
|-------------|-----------|---------|----------------------|-----------|-----------------------|---------|-----------|-----|
| | | Percent | | Percent | | Percent | | |
| \$ | 1,472,284 | 7.3 | \$ | 1,335,589 | 6.6 | \$ | 703,432 | 3.5 |
| | 1,544,191 | 6.9 | | 1,812,064 | 8.0 | | 768,488 | 3.4 |
| | 1,445,323 | 6.8 | | 1,800,387 | 8.5 | | 754,864 | 3.6 |
| | 1,115,091 | 4.8 | | 2,096,660 | 8.9 | | 1,222,351 | 5.2 |
| | 1,099,130 | 4.5 | | 1,831,453 | 7.6 | | 1,145,835 | 4.7 |
| | 1,147,010 | 4.1 | | 2,175,935 | 7.8 | | 1,362,024 | 4.9 |
| | 1,205,276 | 3.2 | | 1,950,418 | 5.2 | | 1,433,099 | 3.8 |
| | 1,316,938 | 3.6 | | 2,074,639 | 5.6 | | 1,414,364 | 3.8 |
| | 1,519,664 | 5.2 | | 2,268,936 | 7.8 | | 1,648,463 | 5.7 |
| | 1,494,526 | 5.1 | | 2,774,938 | 9.5 | | 1,632,810 | 5.6 |
| (1.7%) | | | 22.3% | | | (0.9%) | | |

City of Birmingham, Michigan

| <u>Fiscal Year</u> | <u>Public Works</u> | <u>Percent</u> | <u>Contributions</u> | <u>Percent</u> |
|---|---------------------|----------------|----------------------|----------------|
| 1995-1996 | \$ 2,641,146 | 13.0 | \$ 570,369 | 2.8 |
| 1996-1997 (2) | 2,321,002 | 10.3 | 766,623 | 3.4 |
| 1997-1998 | 2,218,734 | 10.5 | 853,244 | 4.0 |
| 1998-1999 | 2,307,851 | 9.9 | 713,818 | 3.0 |
| 1999-2000 | 2,630,614 | 10.9 | 761,175 | 3.1 |
| 2000-2001 | 2,622,375 | 9.5 | 888,534 | 3.2 |
| 2001-2002 | 3,274,428 | 8.7 | 840,165 | 2.2 |
| 2002-2003 | 3,828,632 | 10.4 | 866,178 | 2.3 |
| 2003-2004 | 3,406,619 | 11.8 | 681,247 | 2.4 |
| 2004-2005 | 3,266,816 | 11.1 | 940,609 | 3.2 |
| Percentage increase (decrease) from 2003-2004 to 2004-2005 | (4.1%) | | 38.1% | |

- (1) This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund.
- (2) Starting in 1997, the general government expenditures for the year ended June 30, 1998 decreased due to the retirement system costs reclassified from the General Fund and charged to the Pension Trust Fund.

**General Governmental Expenditures by Function
Last Ten Fiscal Years (I) (Continued)**

| Capital | | Debt | | Miscellaneous | | Total |
|--------------|---------|--------------|---------|---------------|---------|---------------|
| Outlay | Percent | Service | Percent | | Percent | |
| \$ 1,741,484 | 8.6 | \$ 1,915,080 | 9.4 | \$ 57,517 | 0.3 | \$ 20,269,395 |
| 3,513,181 | 15.6 | 1,988,890 | 8.8 | 36,641 | 0.2 | 22,541,813 |
| 1,469,402 | 6.8 | 2,621,919 | 12.4 | 63,581 | 0.3 | 21,214,386 |
| 2,327,506 | 9.9 | 2,582,743 | 11.0 | 14,255 | 0.1 | 23,422,828 |
| 2,616,380 | 10.8 | 2,647,822 | 11.0 | 26,944 | 0.1 | 24,190,887 |
| 3,928,017 | 14.2 | 3,572,309 | 12.9 | 21,587 | 0.1 | 27,741,374 |
| 13,407,326 | 35.4 | 3,277,603 | 8.7 | - | - | 37,829,642 |
| 13,361,958 | 36.2 | 871,564 | 2.4 | - | - | 36,881,249 |
| 4,180,968 | 14.4 | 1,464,514 | 5.1 | - | - | 28,950,941 |
| 3,117,195 | 10.6 | 1,350,825 | 4.6 | - | - | 29,304,767 |
| (25.4%) | | (7.8%) | | - | | |

City of Birmingham, Michigan

| Fiscal Year | | | Licenses and Permits | |
|--------------------------------|---------------|---------|----------------------------|---------|
| | Taxes | Percent | Permits | Percent |
| 1995-1996 | \$ 13,643,969 | 62.4 | \$ 500,245 | 2.3 |
| 1996-1997 | 13,867,464 | 62.6 | 619,728 | 2.7 |
| 1997-1998 | 14,457,595 | 62.5 | 700,883 | 3.0 |
| 1998-1999 | 15,005,521 | 62.8 | 1,098,905 | 4.6 |
| 1999-2000 | 15,197,625 | 61.1 | 1,336,388 | 5.4 |
| 2000-2001 | 16,678,578 | 59.3 | 2,028,712 | 7.2 |
| 2001-2002 | 18,166,178 | 65.5 | 1,697,747 | 6.1 |
| 2002-2003 | 16,157,523 | 60.8 | 1,554,182 | 5.8 |
| 2003-2004 | 19,311,096 | 66.5 | 1,788,000 | 6.2 |
| 2004-2005 | 20,193,516 | 64.5 | 2,325,043 | 7.4 |
| Percentage increase (decrease) | | | | |
| from 2003-2004 to 2004-2005 | | 4.6% | 30.0% | |

- (I) This schedule includes revenues of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund.

**General Governmental Revenues by Source
Last Ten Years (1)**

| Fines and Forfeitures | | Use of Money and Property | | Federal Grants | |
|--------------------------|---------|---------------------------------|---------|-------------------|---------|
| | Percent | | Percent | | Percent |
| \$ 1,236,825 | 5.7 | \$ 1,244,841 | 5.7 | \$ 115,976 | 0.5 |
| 1,339,972 | 6.1 | 1,259,198 | 5.7 | 167,216 | 0.8 |
| 1,455,777 | 6.3 | 1,168,027 | 5.1 | 168,104 | 0.7 |
| 1,371,188 | 5.7 | 1,101,504 | 4.6 | 255,884 | 1.1 |
| 1,434,140 | 5.8 | 1,160,579 | 4.7 | 139,387 | 0.5 |
| 1,561,387 | 5.6 | 2,091,827 | 7.4 | 86,935 | 0.3 |
| 1,416,836 | 5.1 | 867,912 | 3.1 | 111,135 | 0.4 |
| 1,310,556 | 4.9 | 379,343 | 1.4 | 936,125 | 3.5 |
| 1,268,379 | 4.4 | 360,197 | 1.2 | 358,157 | 1.2 |
| 1,611,650 | 5.2 | 509,800 | 1.6 | 167,152 | 0.5 |
| 27.1% | | 41.5% | | (53.3%) | |

City of Birmingham, Michigan

| Fiscal Year | Inter- governmental | Percent | Charges for Services | Percent |
|---|------------------------|---------|----------------------------|---------|
| 1995-1996 | \$ 2,809,847 | 12.9 | \$ 2,245,804 | 10.3 |
| 1996-1997 | 3,056,642 | 13.8 | 1,783,362 | 8.1 |
| 1997-1998 | 3,341,103 | 14.5 | 1,811,568 | 7.8 |
| 1998-1999 | 3,386,530 | 14.2 | 1,566,844 | 6.5 |
| 1999-2000 | 3,640,986 | 14.6 | 1,812,814 | 7.3 |
| 2000-2001 | 3,538,515 | 12.6 | 1,972,657 | 7.0 |
| 2001-2002 | 3,368,671 | 12.2 | 1,987,525 | 7.2 |
| 2002-2003 | 3,719,633 | 14.0 | 2,300,941 | 8.7 |
| 2003-2004 | 3,157,699 | 10.9 | 2,441,215 | 8.4 |
| 2004-2005 | 4,085,860 | 13.1 | 2,170,661 | 6.9 |
| Percentage increase (decrease) from 2003-2004 to 2004-2005 | | 29.4% | | (11.1%) |

(1) This schedule includes revenues of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund after elimination of operating transfers or residual equity transfers between these funds. This schedule excludes the Expendable Trust Fund.

**General Governmental Revenues by Source
Last Ten Fiscal Years (I) (Continued)**

| | Other | Percent | Total |
|----|---------|---------|---------------|
| \$ | 53,003 | 0.2 | \$ 21,850,510 |
| | 41,469 | 0.2 | 22,135,051 |
| | 33,333 | 0.1 | 23,136,390 |
| | 124,879 | 0.5 | 23,911,255 |
| | 156,546 | 0.6 | 24,878,465 |
| | 162,719 | 0.6 | 28,121,330 |
| | 121,188 | 0.4 | 27,737,192 |
| | 235,449 | 0.9 | 26,593,752 |
| | 346,684 | 1.2 | 29,031,427 |
| | 236,698 | 0.8 | 31,300,380 |
| | (31.7%) | | |

City of Birmingham, Michigan

General Governmental Tax Revenues by Source Last Ten Fiscal Years

Property Taxes

| Fiscal Year | Operating | Solid Waste | 425 Economic Development | Debt | Special Assessments | Total Taxes |
|-------------|--------------|--------------|-----------------------------|--------------|------------------------|----------------|
| 1995-1996 | \$ 9,677,995 | \$ 1,365,898 | \$ - | \$ 2,420,755 | \$ 179,321 | \$ 13,643,969 |
| 1996-1997 | 10,220,133 | 1,038,875 | - | 2,391,415 | 217,041 | 13,867,464 |
| 1997-1998 | 10,622,473 | 1,091,715 | - | 2,415,222 | 328,185 | 14,457,595 |
| 1998-1999 | 11,133,914 | 1,127,886 | - | 2,395,952 | 347,769 | 15,005,521 |
| 1999-2000 | 11,251,990 | 1,151,050 | - | 2,479,440 | 315,145 | 15,197,625 |
| 2000-2001 | 11,977,329 | 1,042,931 | - | 3,341,393 | 316,925 | 16,678,578 |
| 2001-2002 | 13,317,164 | 1,055,406 | - | 3,470,758 | 322,850 | 18,166,178 |
| 2002-2003 | 14,066,321 | 1,244,237 | 11,763 | 653,516 | 163,417 | 16,139,254 |
| 2003-2004 | 16,113,980 | 1,473,140 | 9,885 | 1,484,741 | 229,350 | 19,311,096 |
| 2004-2005 | 16,756,534 | 1,486,925 | 9,948 | 1,345,693 | 594,416 | 20,193,516 |

City of Birmingham, Michigan

| Fiscal Year | Total Tax | | Percent of | |
|---------------|---------------|----------------------------|-------------------------------|-------------------------------|
| | Levy (2) | Current Tax Collections | Current Taxes Collected | Delinquent Tax Collections |
| 1995-1996 | \$ 14,979,658 | \$ 14,311,925 | 95.54 | \$ 570,524 |
| 1996-1997 | 15,058,112 | 14,544,910 | 96.59 | 417,678 |
| 1997-1998 | 16,622,157 | 15,881,143 | 95.54 | 562,258 |
| 1998-1999 | 17,248,712 | 16,753,298 | 97.13 | 480,551 |
| 1999-2000 (3) | 17,955,509 | 17,368,368 | 96.73 | 532,363 |
| 2000-2001 | 19,770,668 | 18,910,885 | 95.65 | 684,674 |
| 2001-2002 | 21,277,771 | 20,428,804 | 96.01 | 754,649 |
| 2002-2003 (4) | 22,240,872 | 21,418,566 | 96.30 | 742,393 |
| 2003-2004 | 24,877,179 | 24,045,911 | 96.66 | 752,087 |
| 2004-2005 | 26,394,991 | 25,524,556 | 96.70 | 794,630 |

(1) Information not available for some years

(2) Includes library tax levy for all years

(3) Beginning in fiscal year 1999-2000, the total tax levy includes the supplemental warrant for Michigan Public Act 189 properties. These are properties that are leased from the City of Birmingham.

(4) Beginning in fiscal year 2002-2003, the total tax levy includes taxes levied against properties subject to Michigan Public Act 425 which have been conditionally transferred from Bloomfield Township to the City of Birmingham. It also includes adjustments/corrections to taxable value approved by the Board of Review, Michigan Tax Tribunal, etc.

**Property Tax Levies and Collections
Last Ten Fiscal Years**

| Total Tax Collections | Ratio of Total Tax Collections to Total Tax Levy | Outstanding Delinquent Taxes (I) | Ratio of Delinquent Taxes to Total Tax Levy (I) |
|--------------------------|---|---|---|
| \$ 14,882,449 | 99.35 | \$ - | - |
| 14,962,588 | 99.37 | 62,368 | 0.41 |
| 16,443,401 | 98.92 | 87,396 | 0.53 |
| 17,233,849 | 99.91 | 65,659 | 0.38 |
| 17,900,731 | 99.69 | 95,656 | 0.53 |
| 19,595,559 | 99.11 | 77,201 | 0.39 |
| 21,183,453 | 99.56 | 58,755 | 0.28 |
| 22,160,959 | 99.64 | 79,913 | 0.36 |
| 24,797,998 | 99.68 | 80,999 | 0.33 |
| 26,319,186 | 99.71 | 82,121 | 0.31 |

City of Birmingham, Michigan

| Fiscal Year | | County Equalized Valuation | State Equalized Valuation | City Assessed Valuation | Percent of True Value (1) |
|-------------|--------|----------------------------------|---------------------------------|----------------------------|---------------------------------|
| 1995-1996 | (2) \$ | 1,018,968,105 | \$ 1,018,968,105 | \$ 1,018,968,105 | 50 |
| 1996-1997 | (2) | 1,095,289,075 | 1,095,289,075 | 1,095,289,075 | 50 |
| 1997-1998 | (2) | 1,185,994,910 | 1,185,994,910 | 1,185,994,910 | 50 |
| 1998-1999 | (2) | 1,293,125,498 | 1,293,125,498 | 1,293,125,498 | 50 |
| 1999-2000 | (2) | 1,443,416,735 | 1,443,416,735 | 1,443,416,735 | 50 |
| 2000-2001 | (2) | 1,618,703,090 | 1,618,703,090 | 1,618,703,090 | 50 |
| 2001-2002 | (2) | 1,821,297,905 | 1,821,297,905 | 1,821,297,905 | 50 |
| 2002-2003 | (2) | 2,067,222,990 | 2,067,222,990 | 2,067,222,990 | 50 |
| 2003-2004 | | 2,454,368,810 | 2,454,368,810 | 2,454,368,810 | 50 |
| 2004-2005 | | 2,499,614,303 | 2,499,614,303 | 2,499,614,303 | 50 |

Note: All valuations are taken from the original warrant for each year and do not reflect any supplemental warrants or Board of Review/Tax Tribunal adjustments.

- (1) In accordance with the 1970 State of Michigan Constitution, the State Equalized Value is 50 percent of appraised or estimated value.
- (2) On March 15, 1994, the voters of the state of Michigan approved Proposal A, which includes significant changes to Section 3 of Article IX of the State Constitution. Starting in 1995, the value against which taxes will be spread has changed from assessed value to taxable value.

**Assessed Valuation History
Last Ten Fiscal Years**

| Real Taxable Valuation | Personal Taxable Valuation | Total Taxable Valuation (2) | Taxable Valuation as Percentage of Assessed Valuation |
|------------------------------|----------------------------------|-----------------------------------|---|
| \$ 947,722,890 | \$ 45,004,300 | \$ 992,727,190 | 97.4 |
| 976,196,677 | 47,830,300 | 1,024,026,977 | 93.5 |
| 1,028,004,614 | 49,488,090 | 1,077,492,704 | 90.9 |
| 1,079,245,416 | 50,787,690 | 1,130,033,106 | 87.4 |
| 1,140,397,208 | 60,363,250 | 1,200,760,458 | 83.2 |
| 1,224,105,785 | 59,423,980 | 1,283,529,765 | 79.3 |
| 1,312,779,883 | 60,179,340 | 1,372,959,223 | 75.4 |
| 1,433,723,668 | 58,533,820 | 1,492,257,488 | 72.2 |
| 1,540,973,679 | 60,481,400 | 1,601,455,079 | 65.2 |
| 1,657,931,750 | 57,255,170 | 1,715,186,920 | 68.6 |

City of Birmingham, Michigan

| Fiscal Year | Charter Operating Millage | Refuse Millage | Library Millage | Debt Millage | Total City Millage | Oakland | |
|---------------|---------------------------------|-------------------|--------------------|-----------------|--------------------------|-------------------|---------------------------------|
| | | | | | | County Millage | Community College Millage |
| 1995-1996 | 11.49 | 1.37 | 1.29 | 0.93 | 15.08 | 5.28 | 1.65 |
| 1996-1997 | 11.54 | 1.01 | 1.28 | 0.87 | 14.70 | 5.18 | 1.65 |
| 1997-1998 (1) | 12.29 | 1.01 | 1.28 | 0.85 | 15.43 | 5.15 | 1.65 |
| 1998-1999 (2) | 12.26 | 1.00 | 1.26 | 0.75 | 15.27 | 4.99 | 1.65 |
| 1999-2000 | 11.66 | 0.96 | 1.58 | 0.75 | 14.95 | 4.98 | 1.63 |
| 2000-2001 | 11.53 | 0.82 | 1.68 | 1.37 | 15.40 | 4.97 | 1.61 |
| 2001-2002 (3) | 12.02 | 0.77 | 1.64 | 1.06 | 15.49 | 4.96 | 1.60 |
| 2002-2003 | 11.50 | 0.83 | 1.54 | 1.00 | 14.87 | 5.25 | 1.61 |
| 2003-2004 (4) | 11.61 | 0.93 | 1.57 | 1.46 | 15.57 | 5.24 | 1.60 |
| 2004-2005 | 11.71 | 0.87 | 1.55 | 1.30 | 15.43 | 5.24 | 1.59 |

Note: All rates are expressed in dollars per \$1,000 of taxable valuation. City general operating tax rate charter limit equals \$20.00 per \$1,000 of taxable valuation.

- (1) Beginning in 1997-1998, a portion of the charter operating millage is allocated to the Water Supply System Fund for water main repair and replacement.
- (2) Beginning in 1998-1999, a portion of the charter operating millage is allocated to the Sewage Disposal Fund for sewer relief projects.
- (3) Beginning in 2001-2002, a portion of the charter operating millage is allocated to the George W. Kuhn Bond Debt Service Fund.
- (4) Beginning in 2003-2004, a portion of the charter operating millage is allocated to the Sewage Disposal Fund for the North Arm Drain.

General Tax Information for 2004 Tax Year

| | City, Intermediate School, Community College, State Education Tax, and One- half School Taxes and School Debt | County and One-half School Taxes, and Transportation |
|------------|---|---|
| Billed | July 1 | December 1 |
| Due | August 31 | February 14 |
| Delinquent | March 1 | March 1 |
| Penalty | .75% per month after August 31 | 3% after February 14 |

**Property Taxes Rates
All Direct and Overlapping Governments
Last Ten Fiscal Years**

| County | | School Millage | | Total | |
|--------------|---------|----------------|-----------|-----------|-----------|
| Intermediate | Total | | Non- | | Non- |
| School | County | | homestead | | homestead |
| Millage | Millage | Homestead | | Homestead | |
| 2.13 | 9.06 | 20.07 | 24.00 | 44.21 | 48.14 |
| 2.13 | 8.96 | 19.77 | 24.00 | 43.43 | 47.66 |
| 2.13 | 8.93 | 19.01 | 24.00 | 43.37 | 48.36 |
| 2.12 | 8.76 | 20.01 | 25.67 | 44.04 | 49.70 |
| 2.10 | 8.71 | 19.70 | 25.45 | 43.36 | 49.11 |
| 2.08 | 8.66 | 18.90 | 25.45 | 42.96 | 49.51 |
| 3.45 | 10.01 | 18.48 | 25.45 | 43.98 | 50.95 |
| 3.42 | 10.28 | 17.75 | 25.45 | 42.90 | 50.60 |
| 3.40 | 10.24 | 16.43 | 24.55 | 42.24 | 50.36 |
| 3.38 | 10.21 | 18.41 | 26.97 | 44.05 | 52.61 |

City of Birmingham, Michigan

Principal Taxpayers Valuation as of July 31, 2004

| Taxpayer | Principal Product or Service | Taxable Valuation | Percent of Taxable Valuation |
|--|-------------------------------------|--------------------------------|------------------------------------|
| Palladium/Related retail | Retail | \$ 18,617,500 | 1.09 |
| Paul Johnson | Apartments, commercial | 16,503,990 | 0.96 |
| Geoff Hockman & Associates | Hotel, office, residential | 15,117,280 | 0.88 |
| Fuller Central Park Prop. | Office, retail | 14,825,340 | 0.86 |
| DTE Energy | Electric utility | 9,512,880 | 0.55 |
| James Esshaki/J.P. Equities LLC | Office, retail | 8,154,690 | 0.48 |
| Associates of 555 | Office, retail, parking, apartments | 6,453,890 | 0.38 |
| Comcast Cablevision | Office | 6,236,490 | 0.36 |
| Rosso Development | Office, residential, apartments | 5,282,780 | 0.31 |
| Heron Development, LLC | Apartments | 4,825,090 | 0.28 |
| Kroger | Retail | 4,682,840 | 0.27 |
| Prudential Investments | Office | 4,597,410 | 0.27 |
| JFK Investments | Office, retail | 4,323,850 | 0.25 |
| Mooney Oil Company | Office | 4,204,350 | 0.25 |
| National City Bank | Office | 4,016,280 | 0.23 |
| Dart Energy Corp. | Office | 3,495,680 | 0.20 |
| Borders Bookstore | Retail | 3,479,360 | 0.20 |
| 305 East Maple, LLC | Office | 3,194,910 | 0.19 |
| Philip Stevens Building Co. | Office, retail | 2,962,090 | 0.17 |
| Stuart Frankel | Office, apartments | 2,870,650 | 0.17 |
| Total 2004 taxable valuation of 20 largest taxpayers | | 143,357,350 | 8.36 |
| Total 2004 taxable valuation of all other taxpayers | | 1,571,829,570 | 91.64 |
| Total 2004 taxable valuation of all taxpayers | | <u><u>\$ 1,715,186,920</u></u> | <u><u>100.00</u></u> |

City of Birmingham, Michigan

Special Assessment Billings and Collections Last Ten Fiscal Years

| Fiscal Year | Special Assessment Billings | Special Assessments Collected (1) | Total Outstanding Special Assessments |
|-------------|-----------------------------------|--|--|
| 1995-1996 | \$ 597,419 | \$ 758,933 | \$ 586,315 |
| 1996-1997 | 614,829 | 808,285 | 666,350 |
| 1997-1998 | 746,807 | 895,377 | 767,697 |
| 1998-1999 | 641,398 | 878,497 | 1,054,646 |
| 1999-2000 | 900,514 | 832,875 | 880,415 |
| 2000-2001 | 747,291 | 1,018,786 | 556,064 |
| 2001-2002 | 752,661 | 1,014,242 | 805,862 |
| 2002-2003 | 742,397 | 856,690 | 634,400 |
| 2003-2004 | 851,306 | 962,880 | 656,097 |
| 2004-2005 | 874,094 | 1,083,789 | 1,267,072 |

(1) Includes collections of delinquent special assessments transferred to the City tax rolls

The County Delinquent Tax Revolving Fund reimburses the City 100 percent of delinquent special assessments, as well as delinquent real taxes.

City of Birmingham, Michigan

Computation of Legal Debt Margin June 30, 2005

| | | |
|---|-------------------|------------------------------|
| 2004 State Equalized Valuation | | <u>\$ 2,499,614,303</u> |
| Debt limit (1) (10 percent of State Equalized Valuation) (2) | | \$ 249,961,430 |
| Debt applicable to limitation: | | |
| Total bonded and contractual debt | \$ 59,461,276 | |
| Less deductions allowed by law - Combined sewer overflow abatement project | <u>16,879,528</u> | |
| Net debt applicable to debt limit | | <u>42,581,748</u> |
| Legal debt margin | | <u><u>\$ 207,379,682</u></u> |

(1) Debt limit set forth in Section 4A, Act 279 of 1909 (Home Rule City Act)

(2) Act No. 202, P.A. 1943 as amended by Act No. 42, P.A. 1960 (defining assessed valuation)

City of Birmingham, Michigan

| Fiscal Year | Population | Taxable Value | Gross Bonded Debt | Less Debt Service Fund (1) |
|---------------|------------|------------------|-------------------------|-------------------------------------|
| 1995-1996 (3) | 19,997 | \$ 992,727,190 | \$ 44,737,200 | \$ 902,830 |
| 1996-1997 | 19,997 | 1,024,026,977 | 40,925,980 (4) | 1,385,095 |
| 1997-1998 | 19,997 | 1,077,492,704 | 39,058,566 | 1,268,285 |
| 1998-1999 | 19,997 | 1,130,033,106 | 37,179,729 | 1,143,865 |
| 1999-2000 | 19,997 | 1,200,760,458 | 47,615,566 | 1,034,733 |
| 2000-2001 | 19,291 | 1,283,529,765 | 46,327,562 | 988,854 |
| 2001-2002 | 19,291 | 1,372,959,223 | 49,018,903 | 1,225,960 |
| 2002-2003 | 19,291 | 1,492,257,488 | 65,172,187 (5) | 10,079 (6) |
| 2003-2004 | 19,291 | 1,601,455,079 | 61,806,980 | 109,710 |
| 2004-2005 | 19,291 | 1,715,186,920 | 59,396,741 | 109,458 |

(1) Amount available for repayment of general obligation bonds

(2) These amounts include the general obligation bonds that are being repaid from the Automobile Parking System Fund.

(3) On March 15, 1994, the voters of the State of Michigan approved Proposal A, which includes significant changes to Section 3 of Article IX of the State Constitution. Starting in 1995, the value against which taxes will be spread has changed from assessed value to taxable value.

(4) Beginning in fiscal year 1996-1997, this amount does not include revenue bonds or contractual obligations that are being repaid from Enterprise Funds (user charges).

(5) In fiscal year 2002-2003, general obligation bonds for Parks and Recreation were issued in the amount of \$15.7 million. Also in 2002-2003, the water revenue bonds were called.

(6) In accordance with GASB 34, several bond issues are now accounted for in the Sewage Disposal Fund rather than the Debt Service Funds. These bond issues include the 2000 Sewer Improvement bonds, the CSO obligations, the George W. Kuhn Drain bonds, and the North Arm Drain bonds.

**Ratio of Net General Obligation Bonded Debt to Taxable Value and Net
General Obligation Bonded Debt per Capital
Last Ten Fiscal Years**

| Debt Payable from Enterprise Revenues (2) | Net Bonded Debt | Ratio of Net Bonded Debt to Taxable Value | Net Bonded Debt per Capita |
|--|-----------------------|--|-------------------------------------|
| \$ 13,304,583 | \$ 30,529,787 | 3.08 | \$ 1,527 |
| 10,024,487 | 29,516,398 | 2.88 | 1,476 |
| 9,311,928 | 28,478,353 | 2.64 | 1,424 |
| 8,579,714 | 27,456,150 | 2.43 | 1,373 |
| 7,822,326 | 38,758,507 | 3.23 | 1,938 |
| 7,020,000 | 38,318,708 | 2.99 | 1,986 |
| 6,085,000 | 41,707,943 | 3.04 | 2,162 |
| 5,045,000 | 60,117,108 | 4.03 | 3,116 |
| 3,925,000 | 57,772,270 | 3.61 | 2,995 |
| 2,800,000 | 56,487,283 | 3.29 | 2,928 |

City of Birmingham, Michigan

Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt (1) to Total General Governmental Expenditures Last Ten Fiscal Years

| Fiscal Year | Principal | Interest | Total Debt Service | Ratio of Debt Service to General Governmental Expenditures | |
|---------------|------------|--------------|--------------------|--|-----------------------------------|
| | | | | Total General Governmental Expenditures (2) | General Governmental Expenditures |
| 1995-1996 | \$ 540,824 | \$ 1,374,256 | \$ 1,915,080 | \$ 20,269,395 | 9.45 |
| 1996-1997 | 531,122 | 1,457,768 | 1,988,890 | 22,541,813 | 8.82 |
| 1997-1998 | 1,154,855 | 1,464,064 | 2,618,919 | 21,214,386 | 12.35 |
| 1998-1999 | 1,146,623 | 1,433,543 | 2,580,166 | 23,422,828 | 11.02 |
| 1999-2000 | 1,022,000 | 1,398,258 | 2,420,258 | 24,190,887 | 10.00 |
| 2000-2001 | 1,644,451 | 1,907,780 | 3,552,231 | 27,741,374 | 12.80 |
| 2001-2002 | 1,557,567 | 1,716,041 | 3,273,608 | 37,829,642 | 8.65 |
| 2002-2003 (3) | 1,522,332 | 2,054,692 | 3,577,024 | 36,881,249 | 9.70 |
| 2003-2004 (4) | 2,237,218 | 2,517,317 | 4,754,535 | 28,950,941 | 16.42 |
| 2004-2005 | 2,190,211 | 2,198,457 | 4,388,668 | 29,304,767 | 14.98 |

- (1) General obligation bonds reported in the Enterprise Funds with government commitment have been excluded.
- (2) This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund.
- (3) Beginning in fiscal year 2002-2003, the Debt Service Funds are no longer used to record the debt service expenditures for the CSO Obligations, the George W. Kuhn Drain bonds, and the 2000 Sewer Improvement bonds. According to GASB No. 34, these payments are now being recorded in the Sewage Disposal Fund. As a result of the debt service payments being tax supported, they are included in the principal and interest amounts above.
- (4) Debt Service payments for the North Arm Drain bonds began in fiscal year 2003-2004. These bonds are tax-supported contractual obligations recorded in the Sewage Disposal Fund.

City of Birmingham, Michigan

Computation of Direct and Overlapping Bonded Debt General Obligation Bonds June 30, 2005

| Jurisdiction | Net General Obligation Bonded Debt Outstanding | Percent Applicable to Government | Amount Applicable to Government |
|--|---|---|--|
| Direct - City of Birmingham | \$ 56,487,283 (1) | 100.00 | \$ 56,487,283 |
| Overlapping | | | |
| Birmingham School District | 240,340,000 | 40.77 | 97,986,618 |
| Pontiac School District | 20,492,000 | 0.17 | 34,836 |
| Oakland County | 97,029,063 | 3.06 | 2,969,089 |
| Oakland County Intermediate School District | 10,220,000 | 3.07 | 313,754 |
| Oakland County Community College | <u>11,175,000</u> | 3.08 | <u>344,190</u> |
| Total overlapping debt | <u>379,256,063</u> | | <u>101,648,487</u> |
| Total direct and overlapping debt | <u>\$ 435,743,346</u> | | <u>\$ 158,135,770</u> |

(1) See "ratio of net general obligation bonded debt to assessed/taxable value and net general obligation bonded debt per capita" (also in this section) for calculation of this amount.

City of Birmingham, Michigan

Revenue Bond Coverage Water Fund Last Ten Fiscal Years

| Fiscal Year | Gross Revenue (1) | Operating Expenses (2) | Net Revenue Available for Debt Service | Debt Service Requirements | | | Coverage |
|---------------|-------------------------|------------------------------|--|---------------------------|------------|------------|----------|
| | | | | Principal | Interest | Total | |
| 1995-1996 | \$ 2,448,564 | \$ 1,535,943 | \$ 912,621 | \$ 200,000 | \$ 115,550 | \$ 315,550 | 2.89 |
| 1996-1997 | 2,414,831 | 1,406,708 | 1,008,123 | 200,000 | 103,050 | 303,050 | 3.33 |
| 1997-1998 | 2,402,501 | 1,742,852 | 659,649 | 200,000 | 94,300 | 294,300 | 2.24 |
| 1998-1999 | 2,776,298 | 1,944,221 | 832,077 | 200,000 | 86,500 | 286,500 | 2.90 |
| 1999-2000 | 2,508,952 | 1,773,321 | 735,631 | 200,000 | 78,500 | 278,500 | 2.64 |
| 2000-2001 | 2,207,898 | 1,635,065 | 572,833 | 200,000 | 70,000 | 270,000 | 2.12 |
| 2001-2002 | 2,633,119 | 1,928,922 | 704,197 | 200,000 | 61,500 | 261,500 | 2.69 |
| 2002-2003 (3) | 2,702,271 | 2,443,291 | 258,980 | 1,400,000 | 52,750 | 1,452,750 | N/A |

(1) Total operating revenues

(2) Total operating expenses exclusive of depreciation and amortization

(3) Revenue bonds were called; outstanding principal balance of \$1,400,000 paid in full June 2003

City of Birmingham, Michigan

Demographic Statistical Data Last Ten Fiscal Years

| Fiscal Year | Population (2) | Average Income Per Household (1) | Median Age (2) | Number of Households (1) | School Enrollment (3) | Unemploy- ment Rate (Percent) (4) |
|-------------|-------------------|--|----------------------|--------------------------------|-----------------------------|---|
| 1995-1996 | 19,997 | \$ * | 37.40 | 9,307 | * | 2.1 |
| 1996-1997 | 19,997 | 65,649 | 37.40 | 9,307 | * | 1.9 |
| 1997-1998 | 19,997 | * | 37.40 | 9,383 | * | 1.6 |
| 1998-1999 | 19,997 | 78,998 | 37.40 | 9,383 | 7,530 | 1.4 |
| 1999-2000 | 19,997 | * | 37.40 | 9,371 | 7,655 | 1.4 |
| 2000-2001 | 19,291 | 80,861 | 39.00 | 9,131 | 7,761 | 1.2 |
| 2001-2002 | 19,291 | * | * | 9,241 | 7,743 | 2.1 |
| 2002-2003 | 19,291 | * | * | 9,241 | 7,835 | 2.7 |
| 2003-2004 | 19,291 | * | * | 9,242 | 7,949 | 2.8 |
| 2004-2005 | 19,291 | * | * | 9,312 | 8,076 | 2.9 |

(1) Estimates - Southeastern Michigan Council of Governments (SEMCOG)

(2) U.S. Census Bureau. Data for years 1993-2000 is as of 1990. Data for 2001-2004 is as of 2000.

(3) Birmingham Community Schools - Public schools only. Includes all K-12 students including out-of-district

(4) Data is from Michigan Department of Career Development (MDCD) Office of Labor Market Information and reflects the annual average as of December 31. Years 1995-2003 were revised as of March 2004.

* Information is not available for some years. Birmingham is too small to be included in most tables that list detailed data. Nearly all detailed tables are for cities with populations of 25,000 or more.

City of Birmingham, Michigan

Property Value, Construction, and Bank Deposits Last Ten Fiscal Years

| Fiscal Year | Construction | | Bank Deposits (1) \$(000) | Property Value (Assessed) | | |
|-------------|--------------------|---------------|---------------------------------|---------------------------|---------------|----------------|
| | Number of Units | Value | | Commercial | Industrial | Residential |
| 1995-1996 | 722 | \$ 23,292,296 | \$ 668,114 | \$ 249,702,050 | \$ 19,032,720 | \$ 750,223,335 |
| 1996-1997 | 778 | 29,758,769 | 731,570 | 265,068,555 | 18,783,960 | 811,436,560 |
| 1997-1998 | 836 | 40,068,922 | 726,385 | 286,716,510 | 19,890,050 | 879,388,350 |
| 1998-1999 | 921 | 58,680,622 | 738,262 | 292,653,090 | 16,543,970 | 983,928,438 |
| 1999-2000 | 844 | 43,450,820 | 772,297 | 305,236,350 | 20,294,820 | 1,117,885,565 |
| 2000-2001 | 866 | 76,939,552 | 782,878 | 315,509,990 | 22,266,580 | 1,280,926,520 |
| 2001-2002 | 826 | 62,541,870 | 851,298 | 330,017,200 | 22,456,240 | 1,468,824,465 |
| 2002-2003 | 849 | 58,216,724 | 948,028 | 374,838,960 | 23,555,950 | 1,668,828,080 |
| 2003-2004 | 937 | 98,978,649 | 964,545 | 620,560,940 | 30,753,760 | 1,803,054,110 |
| 2004-2005 | 1,122 | 92,582,941 | 987,055 | 588,886,680 | 31,983,480 | 1,878,744,143 |

(1) The deposit information is from FDIC data contained in branch directory and summaries of deposits; Decision Research Sciences; Ambler, Pennsylvania. For 1992, deposit information was obtained from data contained in the 1992 Branches of Michigan, Sheshunoff. 1998 and 1999 deposit information was obtained from the Bank & Thrift Branch Office Data Book, Central Region, 1997 and 1998, respectively. The 2000-2005 deposit information was from www.fdic.gov FDIC/OTS summary of deposits (data as of June 30, 1999, June 30, 2000, June 30, 2001, June 30, 2002, June 30, 2003, and June 30, 2004, respectively).

City of Birmingham, Michigan

Miscellaneous Statistical Data

| | | |
|--------------------------------|-----------------|--------------------------|
| Original Incorporation | January 8, 1864 | Village Form |
| Second Charter | June 2, 1885 | Village Form |
| Third Charter | 1917 | Manager, Trustee Form |
| First City Charter | 1927 | Commission Form |
| Current Home Rule City Charter | April 3, 1933 | Manager, Commission Form |

Area incorporated - 4.73 square miles

Streets and Alleys

| | |
|--------------------|--------|
| Miles of streets: | 84.32 |
| Major | 21.87 |
| Local | 62.58 |
| Sidewalks in miles | 128.69 |
| Bridges | 9 |

Building Data

| | |
|------------------------------|---------------|
| 2004-2005 building permits | 1,122 |
| 2004-2005 construction value | \$ 92,582,941 |

2004-2005 Fire Protection (Budgeted Positions)

| | |
|---|----|
| Stations | 2 |
| Regular firefighters (not including chiefs) | 35 |
| Volunteers | 15 |

2004-2005 Police Protection (Budgeted Positions)

| | |
|---------------------------------------|----|
| Precincts | 1 |
| Regular police (Not including chiefs) | 33 |
| Auxiliary | 14 |

2004-2005 Number of Budgeted Employees

| | |
|---------------------|-----|
| Full-time personnel | 188 |
| Part-time personnel | 77 |

Population Data

| | |
|---------------------|--------|
| 1970 federal census | 26,170 |
| 1980 federal census | 21,689 |
| 1990 federal census | 19,997 |
| 2000 federal census | 19,291 |

Water Distribution System

| | |
|-----------------------------------|-------|
| Customers | 8,476 |
| Meters | 8,533 |
| Miles of water mains | 100.8 |
| Fire hydrants: | |
| City-owned | 789 |
| Privately owned | - |
| Total number of line gate valves | 1,278 |
| Storage tanks - 500,000 gal. each | 2 |

Sewage Collection System

| | |
|--------------------------|--------|
| Miles of sanitary sewers | 117.09 |
|--------------------------|--------|

Parking System

| | |
|-----------------------------|-------|
| Parking structures | 5 |
| Parking-metered spaces | 1,270 |
| Total public parking spaces | 4,858 |

Election Data

| | |
|----------------------------------|--------|
| Registered voters, Nov. 2004 | 16,674 |
| Votes cast, Nov. 2004 election | 12,340 |
| Percent voting | 74% |
| Registered voters, June 30, 2005 | 15,422 |

Library 2004-2005

| | |
|----------------------------|-----------|
| Registered patrons | 42,213 |
| Book collections | 132,586 |
| Audiovisual collections | 55,905 |
| Items circulated | 520,018 |
| Reference questions | 77,989 |
| Patron visits | 352,742 |
| Circulation per capita (1) | 16.9 |
| Program attendance | 28,991 |
| Computer resource usage | 1,240,934 |

(1) Based on population for the service area of the library: Birmingham, Beverly Hills, and Bingham Farms

September 30, 2005

Honorable Mayor and Members
of the City Commission
City of Birmingham
151 Martin
Birmingham, MI 48012-3001

Dear Mayor and Commission Members:

We recently completed our audit of the comprehensive annual financial report of the City of Birmingham for the year ended June 30, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

State Shared Revenue Update

The Governor's budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. In essence, no further reductions to revenue sharing below the current FY 04/05 funding level were being proposed. During the budget deliberation process over the spring and summer, cuts were proposed by the Legislature to revenue sharing and then subsequently restored. The budget has now been adopted, with state shared revenue payments funded at fiscal year 2004/2005 levels.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, projected sales tax revenue would have supported an increase to state shared revenue payments; the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law. There appears to be no long term solution to the State's structural deficit in its General Fund and as long as this condition exists revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of a changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

State Shared Revenue Update (Continued)

State shared revenue accounts for approximately 7% of the City's total General Fund revenue. If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$450,000 at risk in its General Fund budget based on 2006 estimated funding. We will continue to update the City as developments occur.

Transportation Matters

The State is now expecting lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year, which ended September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were 4 percent behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Fund. The lower than anticipated collections could impact the City's fiscal year 2005/2006 budget.

Tax Matters

The centerpiece of the governor's fiscal year 2005/2006 State of Michigan budget is significant business tax reform of the Michigan Single Business Tax. The governor's business tax reform proposal appeared to spare local governments from any negative impact of the changes and actually contained a provision to address a loophole in property tax assessments related to commercial property (known as WPW). As of this date, there is no consensus in Lansing on the governor's tax proposal and alternative proposals are being discussed in the Legislature. Therefore, the impact on local government from these potential changes cannot be determined. A key component to most of the tax restructuring proposals is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals such as who determines the property that qualifies for credit, how will local governments be reimbursed by the State for the lost tax revenue as is the stated intention, etc. Debate on these tax restructuring proposals will continue over the next several months into the fall.

The loophole involving the inconsistent treatment of the assessment of commercial property is commonly referred to as the "WPW Case" involving the City of Troy. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This method of assessing commercial property (known as the "occupancy method") has been used by assessors to give commercial property owners a break when occupancy of their property has decreased and then to restore the taxable value of the property consistent with previous levels when occupancy increases. There are two bills in the House currently (House Bills 5096 and 5097) that have received hearings and consideration which would address this matter.

Economic Condition Reporting

The Governmental Accounting Standards Board has recently released a new statement that impacts how communities will report measures of economic condition in the future. Statement number 44 is intended to take advantage of the new financial reporting model that was implemented two years ago, which was intended to provide a more long-term view of a community's financial condition. It is our belief that these statistical schedules will allow the City to use the new financial statement measures to see important trends over time, and to compare itself to other communities. Plante & Moran has spent some time creating model schedules to implement the new reporting rules, and will be providing this to your finance department.

We would like to thank the Commission for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like our assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



Joseph C. Heffernan